SOUTHERN BANCSHARES (N.C.), INC.

2024 Consolidated Financial Statements

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY

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Independent Auditor's Report

Board of Directors
Southern BancShares (N.C.), Inc.
Mount Olive, North Carolina

Opinion

We have audited the consolidated financial statements of Southern BancShares, (N.C.), Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2024, based on the criteria established in *Internal Control – Integrated Framework (2013),* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 24, 2025 expressed an unmodified opinion thereon.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Forvis Mazars, LLP

Greenville, North Carolina
March 24, 2025

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands Except Share and Per Share Data)

	December 31, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 25,286	$ 21,333
Interest-bearing deposits with banks	258,704	82,740
Certificates of deposit with banks	1,350	1,550
Total cash and cash equivalents	285,340	105,623
Investment in marketable equity securities at fair value (cost of $32,098 and $26,960, respectively)	466,104	315,951
Investment securities available for sale, at fair value (amortized cost of $1,446,515 and $1,526,805, respectively)	1,213,327	1,301,645
Loans held for sale	12,431	3,846
Loans	3,248,926	3,108,987
Less allowance for credit losses	(34,252)	(33,037)
Net loans	3,214,674	3,075,950
Premises and equipment, net	60,969	61,140
Operating lease right of use assets	2,847	3,173
Accrued interest receivable	17,803	16,780
Stock in Federal Home Loan Bank of Atlanta	10,931	14,852
Goodwill	26,649	26,649
Intangible assets	6,544	6,233
Bank owned life insurance	30,623	30,337
Other assets	37,342	25,760
Total assets	$ 5,385,584	$ 4,987,939
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 1,344,868	$ 1,406,689
Interest-bearing	3,099,059	2,731,075
Total deposits	4,443,927	4,137,764
Short-term borrowings	162,497	225,495
Long-term borrowings	109,327	139,223
Operating lease liabilities	3,045	3,401
Other liabilities	63,137	22,074
Total liabilities	4,781,933	4,527,957
SHAREHOLDERS' EQUITY		
Preferred stock	1,706	1,727
Common stock, $5 par value; 158,485 shares authorized; 75,943 and 76,778 shares issued and outstanding at December 31, 2024 and 2023, respectively	380	384
Surplus	27,189	27,043
Retained earnings	752,130	601,687
Accumulated other comprehensive loss	(177,754)	(170,859)
Total shareholders' equity	603,651	459,982
Total liabilities and shareholders' equity	$ 5,385,584	$ 4,987,939

See Notes to Consolidated Financial Statements

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Dollars in Thousands Except Share and Per Share Data)

	Year Ended December 31, 2024	2023
Interest income:		
Loans	$ 158,675	$ 134,550
Investment securities	31,661	31,445
Federal funds sold and deposits with banks	7,279	3,948
Total interest income	197,615	169,943
Interest expense:		
Deposits	59,170	38,947
Short-term borrowings	10,403	10,206
Long-term borrowings	2,554	2,690
Total interest expense	72,127	51,843
Net interest income	125,488	118,100
Provision (recovery) for credit losses	792	(163)
Net interest income after provision (recovery) for credit losses	124,696	118,263
Noninterest income:		
Service charges on deposit accounts	8,195	7,927
Other service charges and fees	8,324	8,065
Realized gains (losses) on investments:		
Equity securities	-	2,196
Investment securities available for sale	(1)	(3,057)
Unrealized gains on equity securities	148,015	140,415
Gain on redemption of long-term borrowings	-	2,184
Gain on sale of loans	427	475
Loss on sale of other real estate owned, net of writedowns	-	(4)
Wealth management revenue	4,888	3,940
Other	9,113	7,351
Total noninterest income	178,961	169,492
Noninterest expense:		
Personnel	62,646	60,198
Data processing	11,529	9,907
Occupancy	7,135	7,188
Furniture and equipment	6,497	6,120
FDIC assessments	2,437	2,383
Professional fees	3,332	3,055
Amortization of intangibles	1,048	1,198
Other	8,986	10,564
Total noninterest expense	103,610	100,613
Income before income taxes	200,047	187,142
Income taxes	42,223	38,754
Net income	157,824	148,388
Other comprehensive (loss) income:		
Unrealized (losses) gains arising during period on investment securities available for sale	(8,028)	45,572
Tax effect	1,770	(14,250)
Reclassification adjustment from investment security transactions	1	3,057
Tax effect	-	(693)
Net of tax amount	(6,257)	33,686
Pension obligation	(765)	2,119
Tax effect	127	(452)
Net of tax amount	(638)	1,667
Total other comprehensive (loss) income	(6,895)	35,353
Comprehensive income	$ 150,929	$ 183,741
Per share information:		
Net income available to common shareholders per common share, basic and diluted	$ 2,064.11	$ 1,907.08
Cash dividends declared on common shares	25.00	25.00
Weighted average common shares outstanding	76,337	77,673

See Notes to Consolidated Financial Statements

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Thousands Except Share and Per Share Data)

	Preferred Series B	Preferred Series C	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2022	$ 1,263	$ 473	$ 390	$ 27,043	$ 461,326	$ (206,212)	$ 284,283
Adoption of ASC 326	-	-	-	-	848	-	848
Balance at January 1, 2023	1,263	473	390	27,043	462,174	(206,212)	285,131
Net income	-	-	-	-	148,388	-	148,388
Other comprehensive income	-	-	-	-	-	35,353	35,353
Comprehensive income	-	-	-	-	148,388	35,353	183,741
Purchase and retirement of stock	(8)	(1)	(6)	-	(6,677)	-	(6,692)
Cash dividends:							
Common stock	-	-	-	-	(1,939)	-	(1,939)
Preferred B	-	-	-	-	(227)	-	(227)
Preferred C	-	-	-	-	(32)	-	(32)
Balance, December 31, 2023	1,255	472	384	27,043	601,687	(170,859)	459,982
Net income	-	-	-	-	157,824	-	157,824
Other comprehensive loss	-	-	-	-	-	(6,895)	(6,895)
Comprehensive income	-	-	-	-	157,824	(6,895)	150,929
Common shares issued	-	-	-	146	-	-	146
Purchase and retirement of stock	(21)	-	(4)	-	(5,218)	-	(5,243)
Cash dividends:							
Common stock	-	-	-	-	(1,907)	-	(1,907)
Preferred B	-	-	-	-	(224)	-	(224)
Preferred C	-	-	-	-	(32)	-	(32)
Balance, December 31, 2024	$ 1,234	$ 472	$ 380	$ 27,189	$ 752,130	$ (177,754)	$ 603,651

See Notes to Consolidated Financial Statements

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands Except Share and Per Share Data)

	Year Ended December 31,	
	2024	2023
OPERATING ACTIVITIES:		
Net income	$ 157,824	$ 148,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (recovery) for loan losses	792	(163)
Deferred income tax expense	30,681	28,944
(Gain) loss on marketable equity securities	(148,015)	(140,415)
Loss on sales and issuer calls of securities	1	3,057
Loss on sale and writedowns of other real estate owned	-	4
Valuation adjustments on real estate held for sale	76	1,199
Gain on sale of loans	(427)	(475)
Gain on redemption of long-term borrowings	-	(2,184)
Net amortization of investment securities available for sale	2,147	1,750
Accretion on acquired loans	(974)	(2,711)
Amortization of intangibles and mortgage servicing rights	1,048	1,198
Depreciation	4,123	4,022
Amortization of long-term borrowings issuance costs	104	230
Proceeds from sales of loans held for sale	115,678	57,588
Origination of loans held for sale	(123,836)	(57,981)
Amortization of operating lease right of use assets	711	680
Payments on operating lease liabilities	(741)	(663)
Net increase in intangible assets	(1,359)	(738)
Net change in accrued interest receivable	(1,023)	(2,092)
Net increase in cash surrender value of bank owned life insurance	(807)	(731)
Net change in other assets	(8,692)	5,992
Net change in other liabilities	10,747	(3,476)
NET CASH PROVIDED BY OPERATING ACTIVITIES	38,058	41,423
INVESTING ACTIVITIES:		
Purchases of marketable equity securities	(2,138)	(2,999)
Proceeds from sales of marketable equity securities	-	2,196
Proceeds from maturities, paydowns, and calls of investment securities available for sale	87,198	87,395
Proceeds from sales of investment securities available for sale	-	64,268
Purchases of investment securities available for sale	(9,963)	(35,282)
Net increase in loans	(138,965)	(255,959)
Net increase in FHLB stock	3,921	(6,056)
Purchases of premises and equipment	(4,344)	(2,794)
Proceeds from sale of premises and equipment	45	946
Proceeds from the sale of other real estate owned	-	136
NET CASH USED BY INVESTING ACTIVITIES	(64,246)	(148,149)
FINANCING ACTIVITIES:		
Net decrease in noninterest-bearing demand deposits	(61,821)	(38,937)
Net increase in interest-bearing deposits	367,984	50,719
Net (decrease) increase in short-term borrowings	(92,998)	17,434
Proceeds from issuance of long-term borrowings	-	60,000
Redemption of long-term borrowings	-	(7,816)
Proceeds from issuance of common stock	146	-
Cash dividends paid	(2,163)	(2,198)
Purchase and retirement of stock	(5,243)	(6,692)
NET CASH PROVIDED BY FINANCING ACTIVITIES	205,905	72,510
NET DECREASE IN CASH AND CASH EQUIVALENTS	179,717	(34,216)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	105,623	139,839
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	$ 285,340	$ 105,623

See Notes to Consolidated Financial Statements

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in Thousands Except Share and Per Share Data)

	Year Ended December 31, 2024	2023
SUPPLEMENTAL DISCLOSURES OF CASH PAID DURING THE YEAR FOR:		
Interest	$ 73,270	$ 56,216
Income taxes	8,709	8,456
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Unrealized (losses) gains on available-for-sale securities, net of tax	$ (6,257)	$ 33,686
Change in pension obligation, net of tax	(638)	1,667
Loans transferred to other real estate	-	140
Premises and equipment transferred to other assets	347	897
Recognition of new and modified operating lease right of use assets	(386)	(360)

See Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Southern BancShares (N.C.), Inc. ("BancShares") is the holding company for Southern Bank and Trust Company ("Southern"), which operates 47 banking offices in eastern North Carolina and 9 banking offices in southeastern Virginia. In addition to the full-service banking offices, Southern also maintains a mortgage loan production office in North Carolina and a loan production office in Virginia.

Southern, which began operations January 29, 1901, has a wholly-owned subsidiary, Goshen, Inc., whose primary operations include holding certain investments. Southern also has a wholly owned subsidiary, Tuscarora Property Holdings, LLC, that was created to hold, manage and ultimately dispose of select other real estate owned ("OREO") properties. BancShares and Southern are headquartered in Mount Olive, North Carolina.

BancShares has no foreign operations and BancShares' customers are principally located in eastern North Carolina and southeastern Virginia.

BancShares and Southern are subject to federal and state banking laws and regulations. These laws and regulations focus on the protection of depositors, federal deposit insurance funds, and the banking system as a whole rather than the protection of security holders. Federal and state banking regulators possess broad powers to take supervisory actions they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums, increased expenses, restrictions on fee income and limitations on activities that could have a materially adverse effect on our results of operations.

Principles of Consolidation

The consolidated financial statements include the accounts of BancShares and other entities in which BancShares has a controlling interest. All significant intercompany balances have been eliminated in consolidation.

Basis of Financial Statement Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates made by BancShares in the preparation of its consolidated financial statements are:

- Investment security valuation
- Determination of the allowance for credit losses
- Goodwill impairment
- Pension plan assumptions
- Mortgage servicing rights
- Income taxes

Accounting Policy Changes

The following accounting standards have been adopted and are reflected in the consolidated financial statements as described below. Newly-issued ASUs that have not been adopted by BancShares are discussed under the caption Recent Accounting Pronouncements.

ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASC 326) was adopted effective January 1, 2023, and establishes a new method to measure expected credit losses for financial assets held at the reporting date. ASC 326 also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the company's credit quality and underwriting standards. Among other changes, adoption of 326 resulted in the replacement of the prior allowance for loan losses

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Accounting Policy Changes (continued)

(ALLL), which was based on an incurred loss model, to an allowance for credit losses (ACL), which is based on a current expected credit loss methodology. The ACL applies to financial instruments that are carried at amortized cost. ASC 326 also provides guidance on evaluating credit losses for investment securities available for sale.

Adoption of ASC 326 resulted in creation of the ACL, which resulted in a $3.5 million reduction in the recorded allowance. The adoption of ASC 326 also resulted in changes to the method of accounting for previously-acquired loans under ASC 310-20 and ASC 310-30. Based on changes to the accounting for previously-acquired loans resulting from adoption of ASC 326, the adjustment to the ALLL to record the initial ACL was offset by a $431,000 reduction in loans and an $85,000 increase in accrued interest receivable. Recording the initial ACL, inclusive of the related adjustments to loans and accrued interest, resulted in a $2.4 million increase in retained earnings, net of a $667,000 adjustment to deferred taxes. Creation of the reserve for unfunded commitments resulted in a $2.0 million increase in other liabilities, a $435,000 adjustment to deferred taxes, and a $1.6 million reduction in retained earnings. On a combined basis, the adoption of ASC 326 resulted in an $848,000 increase in retained earnings. All adjustments were recorded effective upon adoption on January 1, 2023.

ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326) – Troubled Debt Restructurings and Vintage Disclosures." ASU 2023-02 was adopted effective January 1, 2023, and eliminates the prior recognition and measurement guidance for troubled debt restructurings and establishes new disclosures for loan modifications arising from a borrower experiencing financial difficulties. ASU 2023-02 also requires disclosures of current period gross charge-offs by year of origination.

ASU 2023-02, *"Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*." ASU 2023-02 seeks to improve the accounting and disclosures for investments in tax credit structures. ASU 2023-02 allows entities to elect to account for qualifying tax equity investments using the proportional amortization method, which was previously only available for qualifying investements in low-income hosing tax credit structures. ASU 2023-02 became effective for us in 2024 and did not have a significant impact on our financial statements.

ASU 2023-07, *"Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures."* ASU 2023-07 expands segment disclosure requirements to require disclosure of significant segment expenses and other segment items for companies with multiple operating segments. ASU 2023-07 became effective for our annual financial statements in 2024.

The Company continues to operate as a single operating segment with all banking products and services provided through various integrated delivery channels, including the branch network and various technology-based options. The Company has identified its Chief Executive Officer as the chief operating decision maker ("CODM"), and the CODM primarily relies on consolidated financial information for decision making purposes including resource allocation decisions.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and certificates of deposit with banks. Overnight and federal funds are purchased and sold for one day periods.

Investment in Equity Securities

Equity securities are recorded on a trade date basis and measured at fair value with all changes recorded through income. Realized and unrealized gains and losses are determined by specific identification and are included in noninterest income. Non-marketable equity securities are securities that do not have readily determinable fair values and are measured at cost. Equity securities with no recurring market value data available are reviewed periodically and any observable market value changes are adjusted through noninterest income. BancShares evaluates its non-marketable equity securities for impairment and recoverability of the recorded investment by considering positive and negative evidence, including the profitability and asset quality of the issuer, dividend payment history and recent redemption experience. Impairment is assessed at each reporting period and if identified, is recognized in noninterest income.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Investment in Equity Securities (continued)

For equity investments without a readily determinable fair value, BancShares has elected to measure the equity investments using the measurement alternative, which requires BancShares to make a qualitative assessment of whether the investment is impaired at each reporting period. Under the measurement alternative, these investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. If a qualitative assessment indicates that the investment is impaired, BancShares will estimate the investment's fair value in accordance with ASC 820, *Fair Value Measurements and Disclosure* and, if the fair value is less than the investment's carrying value, recognize an impairment loss in net income equal to the difference between carrying value and fair value. Equity investments without a readily determinable fair value totaling $4.0 million at December 31, 2024 and 2023, are recorded within other assets in the consolidated balance sheets.

Investment Securities Available for Sale

BancShares classifies debt securities as available for sale, and they are reported at estimated fair value, with unrealized gains and losses, net of income taxes, reported in accumulated other comprehensive income (loss) (AOCI). Amortization of premiums and accretion of discounts for debt securities are included in interest income. Realized gains and losses from the sale of debt securities are determined by specific identification on a trade date basis and are included in noninterest income.

Management performs a quarterly analysis of the investment securities available for sale portfolio to evaluate securities currently in an unrealized loss position for potential credit-related impairment. If BancShares intends to sell a security, or does not have the intent and ability to hold a security before recovering the amortized cost, the entirety of the unrealized loss is immediately recorded in earnings. For the remaining securities, an analysis is performed to determine if any portion of the unrealized loss relates to credit impairment. In this evaluation, management considers changes in credit rating, delinquency, bankruptcy or other significant developments affecting the issuer. If any credit-related impairment is identified, the amount is recorded as an adjustment to the ACL with an offset to the provision for credit losses.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Estimated fair value is determined on the basis of existing forward commitments or the current market value of similar loans. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Prior to closing loans intended for sale in the secondary market, an interest rate lock commitment is entered into with the borrower. The interest rate lock is considered a derivative for Southern, whose estimated fair value is determined by current market rates for similar loans. Loans held-for-sale are normally sold to investors as part of a “mandatory” delivery program for mortgage loans. Under the mandatory delivery system, loans with interest rate locks are paired with the sale of a “to be announced” (“TBA”) mortgage-backed security bearing similar attributes. Under the mandatory delivery program, BancShares commits to deliver loans to an investor at an agreed upon price prior to the close of such loans. Loans held-for-sale may also be sold to investors with the best efforts intent and ability to sell the loans as long as they meet the underwriting standards of the potential investor. A “best efforts” delivery sets the sale price with the investor on a loan-by-loan basis when each loan is locked. At December 31, 2024 and 2023, the estimated fair value of mortgage related derivatives was determined to be immaterial.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Loans

Loans held for investment are recorded at the principal amount outstanding, net of any unearned income, prior charge-offs and unamortized fees and costs. Interest income is recognized in a manner that approximates the level yield method when related to the principal amount outstanding. The net amount of deferred fees and costs is amortized to interest income over the contractual lives using methods that approximate a level yield.

The past due status of loans is based on the contractual terms of the loan. Accrual of interest is discontinued when management believes the borrower's financial condition is such that collection of principal or interest is doubtful. Loans are returned to an accrual status when the factors indicating doubtful collectability cease to exist and the loan has performed in accordance with its terms for a demonstrated period of time. Loan balances considered uncollectible are charged-off against the ACL.

Loan balances are presented based on the loan classes used to calculate the ACL.

Loan Modifications for Borrowers Experiencing Financial Difficulties

Under ASU 2022-02, modifications granted to borrowers experiencing financial difficulties may include term extensions, interest rate reductions, other-than-insignificant payment delays, principal forgiveness, or a combination of these items. Modifications are made in accordance with internal policies and guidelines to conform to regulatory guidance. Considered in isolation, loan modifications to borrowers experiencing financial difficulties do not affect the treatment of the loan for purposes of the ACL calculation. However, the designation does trigger certain disclosure requirements.

Allowance for Credit Losses (ACL)

BancShares' ACL calculation is based on ASC 326, which requires use of the current expected credit loss methodology for the measurement of credit losses on financial assets measured at amortized cost basis.

Loans
The ACL represents management's best estimate of credit losses expected over the life of the loan, adjusted for expected contractual payments and the impact of prepayment expectations. Prepayment assumptions are calculated based on BancShares' historical prepayment activity. Estimates for loan losses are determined by analyzing quantitative and qualitative components as of the evaluation date.

For the ACL calculation, loans are segregated into pools with similar risk characteristics based on the loan class to estimate the ACL. Estimated losses within each pool are calculated based on the probability of default (PD) and loss given default (LGD) for loans within similar loan pools. The ACL also relies on forecasts of relevant economic conditions and other factors that, in the opinion of management, should be considered. BancShares uses a one-year reasonable and supportable forecast period that incorporates unemployment projections at the time of evaluation. At the end of the one-year forecast period, BancShares applies a 12-month straight-line reversion period to historical averages.

Model outputs may be adjusted through a qualitative assessment to reflect economic conditions and trends not captured within the models including credit quality, concentrations, and significant policy and underwriting changes.

For loans in excess of $100,000 that do not share risk characteristics with other loans in the pool, the ACL is evaluated on an individual basis. Impairment on individually-evaluated loans is measured by either the present value of expected cash flows or the expected value from liquidation of the loan collateral, if the loan is identified as collateral dependent.

Accrued Interest Receivable
BancShares has elected not to measure an ACL for accrued interest receivable and has excluded it from the amortized cost basis of loans. Accrued interest is reversed or written off against interest income when determined to be uncollectible.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses (ACL) (continued)

Unfunded Commitments
BancShares maintains a reserve for unfunded commitments for off-balance sheet exposures related to unfunded balances for existing lines of credit, commitments to extend future credit, and commitments for letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The reserve reflects the probability of funding as well as an expectation of future losses, with appropriate PD and LGD factors being considered. The reserve for unfunded commitments, which is included in other liabilities, was $1.5 million at December 31, 2024, and $1.6 million at December 31, 2023.

The ACL for loans is reported as a separate item in the consolidated balance sheets, while the reserve for unfunded commitments is included within other liabilities. The provision or benefit for credit losses related to both loans and unfunded commitments is reported in the consolidated statements of income and comprehensive income as provision for credit losses.

Management believes the ACL is calculated in accordance with US GAAP. While management uses the best information available to make evaluations, future adjustments may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Southern's ACL. Such agencies may require Southern to recognize adjustments to the ACL based on the examiners' judgments about information available to them at the time of their examinations.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated lives of the assets, ranging from 15 to 39 years for buildings and improvements and 3 to 9 years for furniture and equipment.

Leases

Southern leases certain office facilities and office equipment under operating leases. Southern also subleases certain office facilities and owns certain office facilities that are leased to outside parties; however, such leases are not significant. For operating leases other than those considered to be short-term, Southern recognizes operating lease right of use assets and related operating lease liabilities which are reported in the consolidated balance sheets. Southern does not recognize short-term operating leases in the consolidated balance sheets. A lease is considered short-term if it has an original term of 12 months or less and does not have a purchase option that is likely to be exercised.

In recognizing operating lease right of use assets and related operating lease liabilities, Southern has elected the practical expedient that allows for lease and non-lease components to be accounted for as a single lease component. Lease payments over the expected term are discounted using Southern's incremental borrowing rate referenced to the Federal Home Loan Bank advance rates for borrowings of similar term. When appropriate, Management also considers renewal and termination options in the determination of the expected term of each lease. At December 31, 2024 and 2023, leases for office facilities have terms, including renewal options that Management is reasonably certain will be exercised, that extend up to ten years. Southern's leases do not contain material residual value guarantees or material restrictive covenants.

Stock in Federal Home Loan Bank of Atlanta

Membership in the Federal Home Loan Bank of Atlanta (FHLB) requires an initial investment in FHLB stock and additional stock purchases based on the amount of advance activity. FHLB stock does not have a readily determinable fair value because it is only redeemable by the issuer. As a result, this security is carried at cost and is periodically evaluated for impairment.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Derivative Instruments and Hedging Activities

ASC 815, Derivatives and Hedging (ASC 815) provides the disclosure requirements for derivatives and hedging activities to provide an understanding of how and why an entity uses derivative instruments, how an entity accounts for derivative instruments and related hedged items, and 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 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, BancShares 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. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value 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 risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

Certain derivatives require collateral to be delivered by either party to secure its obligation to the counterparty. Collateral held offsets the related net receivable position, and collateral delivered offsets the related net payable position.

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.

Other Real Estate Owned (OREO)

OREO acquired through or in lieu of foreclosure is held for sale and is stated at the estimated fair market value of the property, less estimated disposal costs at time of foreclosure. Thereafter, OREO is carried at the lower of cost or net realizable value. At least annually, current valuations in the form of internal or external appraisals are obtained for all OREO and carrying values are adjusted, if required, with a charge to current expense for adjustments to reflect the current appraised values less the estimated cost to sell.

BancShares estimates fair value at the asset's fair market value less disposal costs using management's assumptions, which are based on current market trends and historical losses for similar assets. Any deficiency in the estimated fair market value over the loan balance is charged to the ACL at the time of the foreclosure. There was no OREO outstanding at December 31, 2024 or December 31, 2023.

Goodwill and Intangible Assets

Goodwill arising from acquisitions is not amortized but is reviewed for potential impairment at least annually or more frequently if events or circumstances indicate a potential impairment. BancShares concluded that goodwill was not impaired as of December 31, 2024; however, future events impacting financial institutions could negatively impact BancShares' goodwill asset in the future.

Intangible assets include mortgage servicing rights (MSRs). MSRs represent the estimated value of the right to service residential mortgage loans for others. Capitalization of MSRs occurs when the underlying loans are sold with servicing retained by Southern. Capitalized MSRs are amortized over the projected servicing life of the underlying loans.

(Dollars in Thousands for Tabular Presentations)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Goodwill and Intangible Assets (continued)

As of December 31, 2024, BancShares had goodwill and intangible assets totaling $33.2 million, compared to $32.9 million at December 31, 2023. Management evaluated BancShares' existing intangible assets and goodwill for impairment as of September 30, 2024. Amortization expense associated with intangible assets was $1.0 million and $1.2 million for the years ended December 31, 2024 and 2023, respectively.

The following is a summary of the gross carrying amounts, accumulated amortization and net carrying amounts of amortized intangible assets and the gross carrying amount of unamortized intangible assets as of December 31, 2024 and December 31, 2023:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2024			
Amortized intangible assets:			
Core deposits intangibles	$ 23,528	$ 23,528	$ -
Mortgage servicing rights	19,910	13,366	6,544
Total	$ 43,438	$ 36,894	$ 6,544
Goodwill	$ 26,649		
December 31, 2023			
Amortized intangible assets:			
Core deposits intangibles	$ 23,528	$ 23,528	$ -
Mortgage servicing rights	18,551	12,318	6,233
Total	$ 42,079	$ 35,846	$ 6,233
Goodwill	$ 26,649		

At December 31, 2024, the scheduled amortization expense for intangible assets is as follows:

2025	$ 622
2026	567
2027	516
2028	484
2029	449
Thereafter	3,906
Total	$ 6,544

The actual amortization expense in future periods may be subject to change based on changes in the useful life of the assets, expectations for loan prepayments, future acquisitions and future loan sales.

Bank-Owned Life Insurance

Southern has purchased life insurance policies on certain current and past key employees and directors where the insurance policy benefits and ownership are retained by BancShares. These policies are recorded at their cash surrender value. Income from these policies and changes in the net cash surrender value are recorded in noninterest income. The cash value accumulation is permanently tax deferred if the policy is held to the insured person's death and certain other conditions are met.

Income Taxes

BancShares uses the asset and liability method to account for deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of BancShares' assets and liabilities at enacted rates expected to be in effect when such amounts are realized or settled.

(Dollars in Thousands for Tabular Presentations)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Recognition of deferred tax assets is based on management's belief that it is more likely than not that the tax benefit associated with certain temporary differences will be realized. A valuation allowance is recorded for deferred tax assets when the more likely than not standard is not met.

Shareholders' Equity

Common shareholders are entitled to one vote per share and preferred series B and C shareholders are entitled to one vote for each 38 shares owned of a class. Dividends on BancShares' common stock may be paid only after annual dividends of $0.90 per share on both preferred series B and C shares have been paid. Share activity and other information for each of the preferred and common stock issues is presented below:

	Non-cumulative Preferred Series B	Non-cumulative Preferred Series C	Common
December 31, 2022	252,652	35,657	78,043
Purchase and retirement	(1,415)	(96)	(1,265)
December 31, 2023	251,237	35,561	76,778
Purchase and retirement	(4,224)	-	(859)
Shares issued	-	-	24
December 31, 2024	247,013	35,561	75,943
Shares authorized	408,728	43,631	158,485
Par value	None	None	$ 5.00
Liquidation value			
December 31, 2023	$ 2,512	$ 356	N/A
December 31, 2024	2,470	356	N/A

Although there were no shares outstanding or activity in any period presented, there were 500,000 shares of $0.01 par value preferred stock authorized as of December 31, 2024.

Earnings per common share are computed by dividing income applicable to common shares by the weighted average number of common shares outstanding during the period. Income applicable to common shares represents net income reduced by dividends paid to preferred shareholders. BancShares has no potentially dilutive securities.

Earnings per common share are calculated based on the following amounts for the years ended December 31:

	2024	2023
Net income	$ 157,824	$ 148,388
Less: preferred dividends	(256)	(259)
Net income applicable to common shares	$ 157,568	$ 148,129
Weighted average common shares outstanding during the period	76,337	77,673

On January 18, 2023, BancShares' board of directors approved a stock repurchase program that expired on March 31, 2024, and authorized the repurchase of up to 4,000 shares of common stock. The repurchase program stipulated that the aggregate dollar amount paid during any consecutive twelve-month period to repurchase shares of common and preferred stock could not equal or exceed three percent of consolidated shareholders' equity. During 2023, BancShares paid $6.7 million to repurchase shares of common and preferred stock pursuant to authorized repurchase programs, including $236,000 during the first quarter of 2023 that related to an earlier repurchase authorization that expired on March 31, 2023. The remaining $6.5 million of 2023 purchases relates to the authorization that expired on March 31, 2024.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Shareholders' Equity (continued)

On January 16, 2024, BancShares' board of directors approved successor stock repurchase program that will expire on March 31, 2025, and authorizes the repurchase of up to 4,000 shares of common stock. The repurchase program stipulates that the aggregate dollar amount paid during any consecutive twelve-month period to repurchase shares of common and preferred stock may not equal or exceed three percent of consolidated shareholders' equity. During 2024, BancShares paid $5.2 million to repurchase shares of common and preferred stock pursuant to authorized repurchase programs, including $1.9 million during the first quarter of 2024 that related to the repurchase authorization that expired on March 31, 2024. The remaining $3.3 million of 2024 purchases relates to the authorization that expires on March 31, 2025. The remaining repurchase limit under the repurchase program that will expire on March 31, 2025, is $12.9 million as of December 31, 2024.

On April 16, 2024, BancShares' board of directors approved the Director Shared Purchase Plan ("DSPP"), which allows each director to purchase up to five shares of common stock per year with the opportunity to be reimbursed for 50 percent of the purchase price, subject to a maximum reimbursement per director of $5,000 in 2024, $7,500 in 2025, and $10,000 in each subsequent year while the DSPP remains in effect. During 2024, BancShares issued 24 shares of common stock pursuant to the DSPP.

On January 21, 2025, BancShares' board of directors approved a stock repurchase program that expires on March 31, 2026, and authorizes the repurchase of up to 4,000 shares of common stock. The repurchase program stipulates that the aggregate dollar amount paid during any consecutive twelve-month period to repurchase shares of common and preferred stock may not equal or exceed three percent of consolidated shareholders' equity.

Comprehensive Income

Comprehensive income is defined as the change in equity during a period for non-owner transactions and includes net income and other comprehensive (loss) income. Other comprehensive (loss) income includes revenues, expenses, gains, and losses that are excluded from earnings under current accounting standards. Components of other comprehensive (loss) income for BancShares consist of the unrealized gains and losses, net of taxes, in BancShares' available for sale securities portfolio and changes in the defined benefit pension plan obligation.

Revenue Recognition

BancShares generally acts in a principal capacity, on its own behalf, in its contracts with customers. In these transactions, BancShares recognizes revenues and the related costs to generate those revenues on a gross basis. In certain circumstances BancShares acts in an agent capacity on behalf of the customers with other entities and recognize revenues and the related costs to provide BancShares' services on a net basis. Business lines where BancShares acts as an agent include interchange and debit card income, merchant services and check sales. Descriptions of BancShares' noninterest revenue-generating activities are broadly segregated as follows:

Service charges on deposit accounts - These deposit account-related fees represent monthly account maintenance and transaction-based service fees such as overdraft fees, stop payment fees and charges for issuing cashier's checks and money orders. For account maintenance services, revenue is recognized at the end of the statement period when BancShares' performance obligation has been satisfied. All other revenues from transaction-based services are recognized at a point in time when the performance obligation has been completed.

Other service charges and fees - These include, but are not limited to, check cashing fees, internet banking fees, wire transfer fees and safe deposit fees. The performance obligation is fulfilled, and revenue is recognized, at the point in time the requested service is provided to the customer.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Interchange and debit card revenue - These represent interchange fees, included in other service charges and fees, from customer debit and credit card transactions that are earned at the time a cardholder engages in a transaction with a merchant. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the card transaction. Costs associated with interchange and debit card revenue are netted against the fee income from such transactions.

Sales of OREO - OREO property consists of foreclosed real estate used as collateral for loans. Revenue is generally recognized on the date of sale where the performance obligation of providing access and transferring control of the specified OREO property to the buyer in good faith and good title is satisfied.

Wealth management revenue - These primarily represent annuity fees, sales commissions, management fees, insurance sales, and advisory fees. The performance obligation for wealth management is the provision of services to place annuity products issued by the counterparty to investors, and the provision of services to manage the client's assets, including brokerage custodial and other management services. Wealth management revenue is recognized over the period in which services are performed, and is based on a percentage of the value of the assets under management/administration. This revenue is either fixed or variable based on account type, or transaction-based.

Merchant services- These represent fees charged to merchants, included in other noninterest income, for providing the ability to accept and process debit and credit card transactions. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the card transaction. Costs associated with merchant services transactions are netted against the fee income from such transactions.

Check sales – These represent the fees, included in other noninterest income, charged for checks sold to customers. A contract has been established with a third party vendor to provide the checks to the customer. Southern receives a commission based upon contractual terms with the third party vendor and the volume of sales that occur over a period of time. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the sale of the checks. Costs associated check sales transactions are netted against the fee income from such transactions.

Other - This consists of several forms of recurring revenue such as dividends on equity investments without a readily determinable fair value, FHLB dividends, servicing income, and income earned on changes in the cash surrender value of bank-owned life insurance and related death benefits, all of which are outside the scope of FASB ASC Topic 606, *Revenue from Contracts with Customers*. The remaining miscellaneous income is the result of immaterial transactions where revenue is recognized when, or as, the performance obligation is satisfied.

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by BancShares.

ASU 2023-09, *"Income Taxes (Topic 740): Improvements to Income Tax Disclosures."* ASU 2023-09 requires public business entities to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. ASU 2023-09 requires various disclosures including income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods. ASU 2023-09 is effective on January 1, 2025, and is not expected to have a significant impact on our financial statements.

From time to time, the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements in the consolidated financial statements of BancShares and monitors the status of changes to and proposed effective dates of exposure drafts.

(Dollars in Thousands for Tabular Presentations)

Note 2. Investment Securities

The amortized cost and estimated fair values of investment securities at December 31, 2024 and 2023 were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2024				
Investments in marketable equity securities	$ 32,098	$ 434,006	$ -	$ 466,104
Investments securities available for sale:				
US Treasuries and government-sponsored entities debt	$ 353,582	$ 4	$ (43,382)	$ 310,204
Corporate debt securities	11,400	-	(244)	11,156
Obligations of states and political subdivisions	224,604	-	(41,582)	183,022
Government-sponsored mortgage-backed securities	856,929	-	(147,984)	708,945
Total investment securities available for sale	$ 1,446,515	$ 4	$ (233,192)	$ 1,213,327
December 31, 2023				
Investments in marketable equity securities	$ 26,960	$ 288,991	-	$ 315,951
Investments securities available for sale:				
US Treasuries and government-sponsored entities debt	$ 362,787	$ 27	$ (46,901)	$ 315,913
Corporate debt securities	11,400	-	(597)	10,803
Obligations of states and political subdivisions	226,357	14	(35,055)	191,316
Government-sponsored mortgage-backed securities	926,261	23	(142,671)	783,613
Total investment securities available for sale	$ 1,526,805	$ 64	$ (225,224)	$ 1,301,645

*Government-sponsored entities debt consists of debt securities offered by Federal Home Loan Mortgage Corporation, Federal National Mortgage Corporation, Federal Home Loan Bank, Small Business Administration ("SBA") and Federal Farm Credit Banks.

Investment securities available for sale with a carrying value of $995.3 million were pledged at December 31, 2024 to secure public deposits and outstanding short-term borrowings, and to provide access to additional borrowing capacity, compared to $884.7 million at December 31, 2023.

The following table identifies investments with unrealized loss positions as of December 31, 2024 and 2023:

	Less Than 12 Months		12 Months or Longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
December 31, 2024						
U.S. Treasuries and government-sponsored entities debt	$ 148	$ 18,214	$ 43,234	$ 280,677	$ 43,382	$ 298,891
Corporate debt securities	-	-	244	11,156	244	11,156
Obligations of states and political subdivisions	43	1,504	41,539	181,518	41,582	183,022
Government-sponsored mortgage-backed securities	326	10,048	147,658	698,897	147,984	708,945
Total	$ 517	$ 29,766	$ 232,675	$ 1,172,248	$ 233,192	$ 1,202,014
December 31, 2023						
U.S. Treasuries and government-sponsored entities debt	$ 8	$ 13,202	$ 50,392	$ 311,748	$ 50,400	$ 324,950
Corporate debt securities	84	2,916	513	7,887	597	10,803
Obligations of states and political subdivisions	14	1,106	35,041	188,653	35,055	189,759
Government-sponsored mortgage-backed securities	-	-	139,172	752,451	139,172	752,451
Total	$ 106	$ 17,224	$ 225,118	$ 1,260,739	$ 225,224	$ 1,277,963

(Dollars in Thousands for Tabular Presentations)

Note 2. Investment Securities (continued)

The following table identifies the number of securities were in an unrealized loss position at December 31, 2024 and 2023:

	December 31, 2024	December 31, 2023
US Treasuries and government-sponsored entities debt	40	41
Corporate debt securities	2	2
Obligations of states and political subdivisions	250	246
Government-sponsored mortgage-backed securities	154	152
Total	446	441

Unrealized losses existing at December 31, 2024 and 2023, primarily resulted from the increase in market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased or until the security matures or is called by the issuer.

As of December 31, 2024 and 2023, there was no intent to sell any of the securities classified as available for sale that are in an unrealized loss position. Furthermore, it is not likely that BancShares will have to sell any such securities before a recovery of the carrying value. Management has evaluated the securities in an unrealized loss position and has not identified any credit-related impairment.

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Repayments of the government-sponsored mortgage-backed securities are dependent on the repayments of the underlying loan balances.

	Amortized cost	Fair value
December 31, 2024		
US Treasuries and government-sponsored entities debt		
Due after one year through five years	$ 203,988	$ 182,338
Due after ten years	149,594	127,866
	353,582	310,204
Corporate debt securities		
Due within one year	3,000	2,862
Due after five years through ten years	8,400	8,294
	11,400	11,156
Obligations of states and political subdivisions		
Due after five years through ten years	15,879	13,558
Due after ten years	208,725	169,464
	224,604	183,022
Government-sponsored mortgage-backed securities	856,929	708,945
	$ 1,446,515	$ 1,213,327

Issuer calls of securities available for sale having a cost basis of $43,000 in 2024 resulted in gross realized losses of $1,000 in 2024. The proceeds from such sales and issuer calls were $42,000 for the year ended December 31, 2024.

Sales and issuer calls of securities available for sale having a cost basis of $561,000 in 2023 resulted in gross realized gains of $15,000 for 2023. The proceeds from such sales and issuer calls were $576,000 for the year ended December 31, 2023. Sales and issuer calls of investment securities available-for-sale having a cost basis of $66.8 million resulted in gross realized losses of $3.1 million in 2023. The proceeds from such sales and issuer calls were $63.7 million for the year ended December 31, 2023.

During 2023, BancShares sold an equity position that was included in other assets as it did not have a readily available market value. BancShares recognized a $2.2 million gain on the sale of this equity investment, which was recorded as a realized gain on equity securities.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses

The following is a summary of loans outstanding at December 31, 2024 and 2023.

	December 31, 2024	December 31, 2023
Commercial:		
Construction and land development - non-residential	$ 143,908	$ 200,423
Agricultural	201,906	220,086
Commercial and industrial	226,247	225,583
Commercial mortgage - owner-occupied/multi-family	863,800	776,861
Commercial mortgage - non-owner occupied	519,018	480,903
Commercial other	44,274	41,778
Non-commercial:		
Construction and land development - residential	73,186	127,717
Consumer	24,072	26,077
Residential mortgage	897,205	789,940
Revolving mortgage	254,840	219,208
Demand overdrafts	470	411
Total loans	$ 3,248,926	$ 3,108,987
Loans held for sale	$ 12,431	$ 3,846
Loans serviced for others	727,596	687,551

Net deferred fees included within the respective balances for each loan type presented above total $4.0 million and $3.6 million at December 31, 2024 and 2023, respectively. Accrued loan interest included in accrued interest receivable in the consolidated balance sheets was $12.6 million and $11.5 million, respectively, and was excluded from the estimate of credit losses.

Loans totaling $3.2 billion and $3.1 billion, respectively, at December 31, 2024 and 2023, were pledged to third parties to secure outstanding borrowings and unfunded credit lines available for contingent funding purposes.

Total loans to directors, executive officers and related individuals and organizations were $769,000 and $930,000 at December 31, 2024 and 2023, respectively. During 2024, there were $75,000 of advances of these loans made to this group and repayments totaling $236,000. There were no restructured or nonaccrual loans to directors, executive officers or related individuals and organizations. All extensions of credit to such persons have been made in the ordinary course of business.

Each portfolio segment and the classes within those segments are subject to risks that could have an adverse impact on the credit quality of the loan portfolio. Management has identified the most significant risks as described below which are generally similar among the segments and classes. While the list is not exhaustive, it provides a description of the risks that management has determined are the most significant.

Commercial loans
Each commercial loan or lease is underwritten based primarily upon the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. A complete understanding of the borrower's businesses including the experience and background of the principals is obtained prior to approval. To the extent that the loan or lease is secured by collateral, which is true for the majority of commercial loans, the likely value of the collateral and what level of strength the collateral brings to the transaction is evaluated. To the extent that the principals or other parties provide personal guarantees, the relative financial strength and liquidity of each guarantor is assessed. Common risks to each class of commercial loans include general economic conditions within the markets BancShares serves, as well as risks that are specific to each transaction including demand for products and services, personal events such as disability or change in marital status, and reductions in the value of collateral.

Note 3. Loans and Allowance for Credit Losses (continued)

In addition to these common risks for commercial loans generally, additional risks are inherent in specific classes of commercial loans.

> *Construction and land development – non-residential - c*onstruction and land development - non-residential loans are highly dependent on the supply and demand for commercial real estate in the markets served by BancShares as well as the demand for newly constructed residential homes and lots that customers are developing. Deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for customers.

> *Agricultural, commercial and industrial, commercial mortgage-owner occupied/multi-family, and commercial mortgage-non-owner occupied* - agricultural, commercial and industrial, commercial mortgage-owner occupied/multi-family, and commercial mortgage-non-owner occupied are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a customer's business results are significantly unfavorable versus the original projections, the ability for the loan to be serviced on a basis consistent with the contractual terms may be at risk. The performance of agricultural loans is highly dependent on favorable weather, reasonable costs for seed and fertilizer, and the ability to successfully market the product at a profitable margin. The demand for these products is also dependent on macroeconomic conditions that are beyond the control of the borrower. While these loans are generally secured by real property, personal property, or business assets such as inventory or accounts receivable, it is possible that the liquidation of the collateral will not fully satisfy the obligation.

> *Commercial other* - commercial other loans consist primarily of loans to municipalities and not for profit organizations, such as volunteer fire departments. Commercial other loans are dependent on the municipality or not for profit organization's ability to generate adequate cash flows to service the loan, primarily through tax revenues, fee revenues, federal and state grants, and donations by local citizens. As such, deterioration in the general economy could impact a borrower's ability to repay the loan due to declines in a municipality's tax base, available federal and state grants, and citizen's ability to provide donations. These loans are primarily secured by equipment used by the municipality or not for profit entity.

Non-commercial loans
Each non-commercial loan is underwritten based primarily upon the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. A complete understanding of the borrower's financial situation is obtained prior to loan approval. To the extent that the loan is secured by collateral, the likely value of that collateral is considered in the credit decision. Common risks to each class of non-commercial loans include risks that are not specific to individual transactions such as general economic conditions within the markets BancShares serves, particularly unemployment and potential declines in real estate values. Personal events such as disability or change in marital status also add risk to non-commercial loans.

In addition to the common risks for the majority of non-commercial loans, additional risks are inherent in certain classes of non-commercial loans, as follows:

> *Revolving mortgage* - revolving mortgage loans are often secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render a second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lien holders that may further weaken the collateral position. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.

> *Consumer and demand overdrafts* - the consumer loan portfolio includes loans secured by personal property such as automobiles, marketable securities, other titled recreational vehicles including boats and motorcycles, as well as unsecured consumer debt. Demand overdrafts represent the aggregate balance of overdrawn deposit account balances that are reclassified as loans. If secured, the value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since the date of loan origination in excess of principal repayment.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (continued)

Residential mortgage and construction and land development – residential - residential mortgage and construction and land development - residential loans are made to individuals and are typically secured by 1-4 family residential property, undeveloped land, and partially developed land in anticipation of pending construction of a personal residence. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Such a decline in value could lead to foreclosures and losses within the banking industry. Non-commercial construction and land development projects can experience delays in completion and cost overruns that exceed the borrower's financial ability to complete the project. Such cost overruns can result in foreclosure of partially completed and unmarketable collateral.

The aging of the outstanding loans and leases, by class, at December 31, 2024 and 2023 is provided in the following tables. Loans and leases less than 30 days past due are considered current, as various grace periods allow borrowers to make payments within a stated period after the due date and remain in compliance with the respective agreement. At December 31, 2024 and 2023, all loans shown as 90 days past due are on nonaccrual status.

	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Current	Total Loans
December 31, 2024					
Commercial:					
Construction and land development - non-residential	$ 133	$ -	$ -	$ 143,775	$ 143,908
Agricultural	4	-	-	201,902	201,906
Commercial and industrial	1,035	9	136	225,067	226,247
Commercial mortgage - owner-occupied/multi-family	314	-	1,188	862,298	863,800
Commercial mortgage - non-owner occupied	937	-	-	518,081	519,018
Commercial other	-	-	-	44,274	44,274
Non-commercial:					
Construction and land development - residential	1	-	-	73,185	73,186
Consumer	69	10	43	23,950	24,072
Residential mortgage	1,156	483	306	895,260	897,205
Revolving mortgage	115	107	177	254,441	254,840
Demand overdrafts	-	-	-	470	470
Total loans	$ 3,764	$ 609	$ 1,850	$ 3,242,703	$ 3,248,926

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (continued)

	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Current	Total Loans
December 31, 2023					
Commercial:					
Construction and land development - non-residential	$ 18	$ 16	$ -	$ 200,389	$ 200,423
Agricultural	-	-	-	220,086	220,086
Commercial and industrial	188	150	88	225,157	225,583
Commercial mortgage - owner-occupied/multi-family	783	-	867	775,211	776,861
Commercial mortgage - non-owner occupied	8	-	-	480,895	480,903
Commercial other	-	-	-	41,778	41,778
Non-commercial:					
Construction and land development - residential	-	-	-	127,717	127,717
Consumer	70	-	-	26,007	26,077
Residential mortgage	1,639	41	52	788,208	789,940
Revolving mortgage	816	14	-	218,378	219,208
Demand overdrafts	-	-	-	411	411
Total loans	$ 3,522	$ 221	$ 1,007	$ 3,104,237	$ 3,108,987

Loans are closely monitored by management for changes in quality. Southern utilizes a risk rating matrix to assign a risk rating to each of its loans. A description of the general characteristics of risk ratings is as follows:

- Pass – assets assigned a pass grade to not display any of the characteristics that would result in an adverse classification.

- Below average - This grade includes loans to borrowers with credit history that reflects delinquencies with justifiable explanation or no credit history. Typically these borrowers do not have a deposit relationship with Southern and/or have made an insignificant investment in the loan. Included in this grade are loans to borrowers with marginal cash flows and net worth or who reside outside of the trade area. Also, loans for which repayment is dependent upon sales in unproven or unstable markets fall into this grade.

- Special mention - This grade includes loans for which repayment terms exceed policy or with no significant principal reduction in the past 12 months, are in an industry that is deteriorating, or that repayment is based upon the sale of collateral, guarantors, or government guarantees. Also included are real estate under construction for speculative purposes and the borrower does not have a long history of sales. This grade is intended to be temporary and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation.

- Substandard - Substandard loans are inadequately protected by the current net 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. These loans are characterized by the distinct possibility that Southern will sustain some loss if the deficiency is not corrected.

- Doubtful - Loans classified as "doubtful" have all the weaknesses inherent in those classified as "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 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 affected in the future.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

Allowance for Credit Losses (ACL)

The ACL represents management's best estimate of credit losses expected over the life of the loan or lease, adjusted for expected contractual payments and the impact of prepayment expectations. Prepayment assumptions were developed through a review of BancShares'historical prepayment activity. Estimates for loan losses are determined by analyzing quantitative and qualitative components as of the evaluation date. Adjustments to the ACL are recorded with a corresponding entry to provision for credit losses.

For the ACL calculation, loans are segregated into pools with similar risk characteristics based on the loan class to estimate the ACL. Estimated losses within each pool are calculated based on the probability of default (PD) and loss given default (LGD) for loans within similar loan pools observed in peer data. The ACL also relies on forecasts of relevant economic conditions and other factors that, in the opinion of management, should be considered. BancShares uses a one-year reasonable and supportable forecast period that incorporates unemployment projections at the time of evaluation. At the end of the one-year forecast period, BancShares applies a 12-month straight-line reversion period to historical averages. Model outputs may be adjusted through a qualitative assessment to reflect economic conditions and trends not captured within the models including credit quality, concentrations, and significant policy and underwriting changes.

For loans that do not share risk characteristics with other loans in the pool, the ACL is evaluated on an individual basis. Impairment on individually-evaluated loans is measured by either the present value of expected cash flows or the expected value from liquidation of the loan collateral, if the loan is identified as collateral dependent.

Model outputs may be adjusted through a qualitative assessment to reflect economic conditions and trends not otherwise captured within the ACL model. These qualitative adjustments may consider asset quality trends, concentrations existing within the loan portfolio, and risks resulting from organizational structure, significant policy and underwriting changes. Adjustments may also be made for economic factors not reflected in the projection utilized in the quantitative calculation and risks resulting from changes in the lending products offered, as well as other factors that management believes should be considered in the ACL calculation.

The following table provides loan balances at December 31, 2024 and 2023 that were on nonaccrual status.

	December 31, 2024	December 31, 2023
Commercial:		
Construction and land development - non-residential	$ 21	$ 25
Agricultural	306	618
Commercial and industrial	532	680
Commercial mortgage - owner-occupied/multi-family	2,524	2,773
Commercial mortgage - non-owner occupied	1,179	1,697
Non-commercial:		
Consumer	43	6
Residential mortgage	1,127	1,389
Revolving mortgage	276	300
Total loans	$ 6,008	$ 7,488

At December 31, 2024 and 2023, there were no loans past due more than 90 days that were accruing.

Nonaccrual loans totaling $3.4 million and $3.8 million, respectively, at December 31, 2024 and 2023, were individually evaluated and found to have no impairment. These loans had no ACL as of the respective measurement date.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

The following table summarizes the credit risk profile by risk rating as of December 31, 2024 and 2023.

	Pass	Below Average	Special Mention	Substandard	Total Loans
December 31, 2024					
Commercial:					
Construction and land development - non-residential	$ 134,288	$ 9,504	$ -	$ 116	$ 143,908
Agricultural	162,592	38,595	113	606	201,906
Commercial and industrial	179,346	44,473	1,829	599	226,247
Commercial mortgage - owner-occupied/multi-family	741,382	110,073	8,522	3,823	863,800
Commercial mortgage - non-owner occupied	446,756	68,896	1,890	1,476	519,018
Commercial other	44,077	177	-	20	44,274
Non-commercial:					
Construction and land development - residential	69,813	3,373	-	-	73,186
Consumer	22,556	1,326	128	62	24,072
Residential mortgage	842,148	51,892	1,100	2,065	897,205
Revolving mortgage	237,883	16,021	254	682	254,840
Demand overdrafts	470	-	-	-	470
Total loans	$ 2,881,311	$ 344,330	$ 13,836	$ 9,449	$ 3,248,926
December 31, 2023					
Commercial:					
Construction and land development - non-residential	$ 174,854	$ 23,758	$ 1,744	$ 67	$ 200,423
Agricultural	160,293	42,807	16,300	686	220,086
Commercial and industrial	176,065	48,491	178	849	225,583
Commercial mortgage - owner-occupied/multi-family	675,253	96,670	1,325	3,613	776,861
Commercial mortgage - non-owner occupied	432,648	46,175	377	1,703	480,903
Commercial other	41,778	-	-	-	41,778
Non-commercial:					
Construction and land development - residential	121,066	6,651	-	-	127,717
Consumer	24,429	1,484	116	48	26,077
Residential mortgage	750,979	34,975	1,461	2,525	789,940
Revolving mortgage	206,723	11,438	430	617	219,208
Demand overdrafts	411	-	-	-	411
Total loans	$ 2,764,499	$ 312,449	$ 21,931	$ 10,108	$ 3,108,987

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

The following table summarizes the credit risk profile by year of origination as of December 31, 2024.

	2020	2021	2022	2023	2024	Prior	Revolving	Revolving Converted to Term	Total
Total recorded investment	$ 310,128	$ 534,829	$ 739,509	$ 411,818	$ 333,152	$ 494,779	$ 421,051	$ 3,660	3,248,926
Total current period gross charge-off	(79)	-	(60)	(149)	(325)	(4)	(215)	-	(832)
Construction and land development - non-residential									
Pass	9,397	16,694	27,345	34,700	32,144	5,289	8,721	-	134,290
Below average	317	1,197	910	4,067	2,578	357	76	-	9,502
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	21	-	-	-	25	70	-	116
Total	9,714	17,912	28,255	38,767	34,722	5,671	8,867	-	143,908
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Agricultural									
Pass	17,112	22,789	13,680	8,676	11,021	33,955	55,127	231	162,591
Below average	1,500	2,088	1,929	3,375	1,390	13,786	14,526	-	38,594
Special mention	-	-	9	-	48	57	-	-	114
Substandard	-	-	16	-	-	441	150	-	607
Total	18,612	24,877	15,634	12,051	12,459	48,239	69,803	231	201,906
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Commercial and industrial									
Pass	10,980	17,854	27,559	31,812	40,652	13,837	36,602	50	179,346
Below average	4,670	9,629	5,766	8,028	3,986	8,333	4,015	46	44,473
Special mention	-	-	410	455	472	103	382	7	1,829
Substandard	99	32	71	-	-	294	103	-	599
Total	15,749	27,515	33,806	40,295	45,110	22,567	41,102	103	226,247
Current period gross writeoff	-	-	(43)	(44)	-	-	(8)	-	(95)
Commercial mortgage - owner-occupied/multi-family									
Pass	95,929	150,779	153,363	74,982	81,649	158,017	26,573	89	741,381
Below average	9,168	10,479	20,527	24,737	6,085	35,980	3,098	-	110,074
Special mention	-	-	-	325	-	7,885	312	-	8,522
Substandard	333	54	286	16	-	3,134	-	-	3,823
Total	105,430	161,312	174,176	100,060	87,734	205,016	29,983	89	863,800
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Commercial mortgage - non-owner occupied									
Pass	53,215	83,997	131,782	60,005	25,311	87,747	4,700	-	446,757
Below average	3,912	5,786	24,197	1,002	3,247	29,054	1,697	-	68,895
Special mention	-	-	1,861	-	-	28	-	-	1,889
Substandard	-	142	156	-	-	1,179	-	-	1,477
Total	57,127	89,925	157,996	61,007	28,558	118,008	6,397	-	519,018
Current period gross writeoff	-	-	-	-	-	-	-	-	-

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

	2020	2021	2022	2023	2024	Prior	Revolving	Revolving Converted to Term	Total
Other commercial									
Pass	$ 146	$ 18,052	$ 19,990	$ 986	$ 2,099	$ 2,787	$ 17	$ -	$ 44,077
Below average	56	-	-	7	-	-	114	-	177
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	20	20
Total	202	18,052	19,990	993	2,099	2,787	131	20	44,274
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Construction and land development - residential									
Pass	-	336	3,452	20,511	41,773	74	3,668	-	69,814
Below average	-	-	-	810	2,562	-	-	-	3,372
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total	-	336	3,452	21,321	44,335	74	3,668	-	73,186
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Consumer									
Pass	1,537	1,817	2,212	4,887	5,411	602	6,087	-	22,553
Below average	4	263	124	101	113	222	501	-	1,328
Special mention	-	-	5	19	52	10	43	-	129
Substandard	-	-	43	-	-	-	19	-	62
Total	1,541	2,080	2,384	5,007	5,576	834	6,650	-	24,072
Current period gross writeoff	-	-	-	(25)	(3)	(4)	(93)	-	(125)
Residential mortgage									
Pass	97,696	189,513	290,016	120,277	62,288	77,527	1,862	2,968	842,147
Below average	2,435	3,138	13,585	11,835	8,158	12,321	395	25	51,892
Special mention	56	51	41	117	-	836	-	-	1,101
Substandard	846	118	174	88	23	815	1	-	2,065
Total	101,033	192,820	303,816	132,317	70,469	91,499	2,258	2,993	897,205
Current period gross writeoff	(79)	-	(17)	-	-	-	-	-	(96)
Revolving mortgage									
Pass	720	-	-	-	1,620	84	235,435	24	237,883
Below average	-	-	-	-	-	-	15,821	200	16,021
Special mention	-	-	-	-	-	-	254	-	254
Substandard	-	-	-	-	-	-	682	-	682
Total	720	-	-	-	1,620	84	252,192	224	254,840
Current period gross writeoff	-	-	-	-	-	-	(114)	-	(114)
Demand overdrafts									
Pass	-	-	-	-	470	-	-	-	470
Total	-	-	-	-	470	-	-	-	470
Current period gross writeoff	-	-	-	(80)	(322)	-	-	-	(402)

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

The following table summarizes the credit risk profile by year of origination as of December 31, 2023.

	2019	2020	2021	2022	2023	Prior	Revolving	Revolving Converted to Term	Total
Total recorded investment	$ 160,774	$ 352,318	$ 594,369	$ 795,931	$ 409,076	$ 435,918	$ 358,381	$ 2,220	$ 3,108,987
Total current period gross charge-off	(1)	-	(53)	(182)	(330)	-	(214)	-	(780)
Construction and land development - non-residential									
Pass	2,274	12,695	34,037	66,834	50,690	5,653	2,671	-	174,854
Below average	101	4,036	1,689	8,975	8,460	450	47	-	23,758
Special mention	-	-	16	1,690	-	38	-	-	1,744
Substandard	-	-	25	-	-	42	-	-	67
Total	2,375	16,731	35,767	77,499	59,150	6,183	2,718	-	200,423
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Agricultural									
Pass	7,999	19,384	26,166	14,352	15,032	34,219	42,991	150	160,293
Below average	6,389	3,108	1,425	2,098	2,529	10,100	16,613	545	42,807
Special mention	89	-	-	13,211	-	-	3,000	-	16,300
Substandard	-	-	-	-	-	686	-	-	686
Total	14,477	22,492	27,591	29,661	17,561	45,005	62,604	695	220,086
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Commercial and industrial									
Pass	6,680	17,341	27,278	38,027	42,035	12,775	31,660	269	176,065
Below average	3,324	6,416	10,591	7,154	6,121	9,367	5,518	-	48,491
Special mention	-	-	-	6	-	38	134	-	178
Substandard	-	96	55	96	-	481	121	-	849
Total	10,004	23,853	37,924	45,283	48,156	22,661	37,433	269	225,583
Current period gross writeoff	-	-	(23)	(71)	-	-	(28)	-	(122)
Commercial mortgage - owner-occupied/multi-family									
Pass	46,815	99,773	155,859	142,401	62,714	146,427	20,533	731	675,253
Below average	10,517	12,939	10,807	13,837	12,963	33,054	2,553	-	96,670
Special mention	-	-	22	-	83	1,220	-	-	1,325
Substandard	-	-	43	5	-	3,565	-	-	3,613
Total	57,332	112,712	166,731	156,243	75,760	184,266	23,086	731	776,861
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Commercial mortgage - non-owner occupied									
Pass	31,224	55,612	83,365	130,712	47,796	80,706	3,141	92	432,648
Below average	5,426	2,663	6,184	9,561	700	19,380	2,261	-	46,175
Special mention	-	-	-	-	-	377	-	-	377
Substandard	118	-	-	-	-	1,585	-	-	1,703
Total	36,768	58,275	89,549	140,273	48,496	102,048	5,402	92	480,903
Current period gross writeoff	-	-	-	-	-	-	-	-	-

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

	2019	2020	2021	2022	2023	Prior	Revolving	Revolving Converted to Term	Total
Other commercial									
Pass	$ 51	$ 270	$ 19,302	$ 17,349	$ 1,674	$ 3,132	$ -	$ -	$ 41,778
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Construction and land development - residential									
Pass	81	395	13,423	54,321	51,784	58	1,004	-	121,066
Below average	-	-	1,024	5,064	563	-	-	-	6,651
Substandard	-	-	-	-	-	-	-	-	-
Total	81	395	14,447	59,385	52,347	58	1,004	-	127,717
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Consumer									
Pass	336	2,407	2,901	3,757	8,601	785	5,642	-	24,429
Below average	27	19	347	239	169	216	467	-	1,484
Special mention	-	-	-	10	22	20	64	-	116
Substandard	-	6	3	1	12	-	26	-	48
Total	363	2,432	3,251	4,007	8,804	1,021	6,199	-	26,077
Current period gross writeoff	(1)	-	(13)	(35)	-	-	(100)	-	(149)
Residential mortgage									
Pass	35,681	111,530	196,555	257,706	87,925	59,290	1,952	340	750,979
Below average	3,361	2,107	3,059	8,222	7,660	9,727	746	93	34,975
Special mention	143	52	59	121	6	1,080	-	-	1,461
Substandard	138	664	134	182	35	1,342	30	-	2,525
Total	39,323	114,353	199,807	266,231	95,626	71,439	2,728	433	789,940
Current period gross writeoff	-	-	(17)	(16)	-	-	-	-	(33)
Revolving mortgage									
Pass	-	805	-	-	1,091	96	204,731	-	206,723
Below average	-	-	-	-	-	9	11,429	-	11,438
Special mention	-	-	-	-	-	-	430	-	430
Substandard	-	-	-	-	-	-	617	-	617
Total	-	805	-	-	1,091	105	217,207	-	219,208
Current period gross writeoff	-	-	-	-	-	-	(86)	-	(86)
Demand overdrafts									
Pass	-	-	-	-	411	-	-	-	411
Total	-	-	-	-	411	-	-	-	411
Current period gross writeoff	-	-	-	(60)	(330)	-	-	-	(390)

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

Loans are designated as collateral-dependent when repayment of the loan is expected to be made through the operation or sale of the collateral. The following table presents the balance of collateral-dependent loans by class as of December 31, 2024 and 2023:

	December 31, 2024	December 31, 2023
Commercial:		
Agricultural	$ 121	$ 410
Commercial and industrial	101	-
Commercial mortgage - owner-occupied/multi-family	1,579	1,626
Commercial mortgage - non-owner occupied	420	607
Non-commercial:		
Residential mortgage	436	326
Revolving mortgage	182	174
Total loans	$ 2,839	$ 3,143

At December 31, 2024 and 2023, all collateral-dependent impaired loans were individually evaluated for impairment. No impairment was recorded.

BancShares maintains a reserve for unfunded commitments, which is included in other liabilities. Activity in the reserve for unfunded commitments is summarized as follows:

	2024	2023
Balance at beginning of period	$ 1,644	$ -
Initial adoption of ASC 326	-	2,027
Recovery for credit losses	(143)	(383)
Balance at end of period	$ 1,501	$ 1,644

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

The following table provides ACL activity by loan class for the year ended December 31, 2024. The table also provides the ACL balance and loan balance, indicating the portions that were derived from loans collectively evaluated and loans individually evaluated as of December 31, 2024.

	As of and for the Year Ended December 31, 2024												
	Construction and land development - non-residential	Agricultural	Commercial and industrial	Commercial mortgage - owner-occupied	Commercial mortgage - non-owner occupied	Commercial Other	Construction and land development - residential	Consumer	Residential mortgage	Revolving mortgage	Demand overdrafts	Total
ACL balance, December 31, 2023	$ 3,522	$ 1,467	$ 3,312	$ 7,234	$ 5,220	$ 319	$ 1,088	$ 308	$ 7,547	$ 3,018	$ 2	$ 33,037
Charge-offs	-	-	(95)	-	-	-	-	(125)	(96)	(114)	(402)	(832)
Recoveries	5	90	48	656	58	-	-	34	99	33	89	1,112
Provision for credit losses	(1,423)	(160)	(211)	312	807	61	(95)	75	1,298	(43)	314	935
ACL balance, December 31, 2024	$ 2,104	$ 1,397	$ 3,054	$ 8,202	$ 6,085	$ 380	$ 993	$ 292	$ 8,848	$ 2,894	$ 3	$ 34,252
ACL at December 31, 2024:												
Collectively evaluated for impairment	$ 2,104	$ 1,397	$ 3,035	$ 8,168	$ 6,085	$ 380	$ 993	$ 292	$ 8,848	$ 2,894	$ 3	$ 34,199
Individually evaulated for impairment	-	-	19	34	-	-	-	-	-	-	-	53
ACL	$ 2,104	$ 1,397	$ 3,054	$ 8,202	$ 6,085	$ 380	$ 993	$ 292	$ 8,848	$ 2,894	$ 3	$ 34,252
Loans at December 31, 2024:												
Collectively evaluated for impairment	$ 143,908	$ 201,785	$ 225,866	$ 862,181	$ 518,162	$ 44,274	$ 73,186	$ 24,072	$ 896,496	$ 254,658	$ 470	$ 3,245,058
Individually evaulated for impairment	-	121	381	1,619	856	-	-	-	709	182	-	3,868
Total loans	$ 143,908	$ 201,906	$ 226,247	$ 863,800	$ 519,018	$ 44,274	$ 73,186	$ 24,072	$ 897,205	$ 254,840	$ 470	$ 3,248,926

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

	Construction and land development - non-residential	Agricultural	Commercial and industrial	Commercial mortgage - owner-occupied/ multi-family	Commercial mortgage - non-owner occupied	Other Commercial	Construction and land development - residential	Consumer	Residential mortgage	Revolving mortgage	Demand overdrafts	Total
ALLL balance, December 31, 2022	$ 2,061	$ 2,983	$ 2,987	$ 9,131	$ 5,694	$ 389	$ 580	$ 655	$ 8,801	$ 2,251	$ 302	$ 35,834
ASC 326 adoption	1,090	(1,224)	746	(1,832)	(164)	(153)	(158)	(342)	(1,651)	535	(300)	(3,453)
ACL balance, January 1, 2023	3,151	1,759	3,733	7,299	5,530	236	422	313	7,150	2,786	2	32,381
Charge-offs	-	-	(122)	-	-	-	-	(149)	(33)	(86)	(390)	(780)
Recoveries	4	73	65	395	125	-	51	24	302	97	80	1,216
Provision for credit losses	367	(365)	(364)	(460)	(435)	83	615	120	128	221	310	220
ACL balance, December 31, 2023	$ 3,522	$ 1,467	$ 3,312	$ 7,234	$ 5,220	$ 319	$ 1,088	$ 308	$ 7,547	$ 3,018	$ 2	$ 33,037
ACL at December 31, 2023:												
Collectively evaluated for impairment	$ 3,522	$ 1,467	$ 3,257	$ 7,232	$ 5,220	$ 319	$ 1,088	$ 308	$ 7,547	$ 3,018	$ 2	$ 32,980
Individually evaulated for impairment	-	-	55	2	-	-	-	-	-	-	-	57
ACL	$ 3,522	$ 1,467	$ 3,312	$ 7,234	$ 5,220	$ 319	$ 1,088	$ 308	$ 7,547	$ 3,018	$ 2	$ 33,037
Loans at December 31, 2023:												
Collectively evaluated for impairment	$ 200,423	$ 219,676	$ 225,102	$ 774,876	$ 479,204	$ 41,778	$ 127,717	$ 26,077	$ 789,614	$ 219,034	$ 411	$ 3,103,912
Individually evaulated for impairment	-	410	481	1,985	1,699	-	-	-	326	174	-	5,075
Total loans	$ 200,423	$ 220,086	$ 225,583	$ 776,861	$ 480,903	$ 41,778	$ 127,717	$ 26,077	$ 789,940	$ 219,208	$ 411	$ 3,108,987

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Credit Losses (Continued)

Loan Modifications for Borrowers Experiencing Financial Difficulties (Subsequent to adoption of ASU 2023-02)

As part of the Company's credit risk management practices, BancShares attempts to work with borrowers when necessary to extend or modify loan terms to accommodate the borrowers current ability to repay. BancShares' modifications granted to borrowers experiencing financial difficulties may include term extensions, interest rate reductions, other-than-insignificant payment delays, principal forgiveness, or a combination of these items. Modifications are made in accordance with internal policies and guidelines to conform to regulatory guidance.

Identification of a loan modification for borrowers experiencing financial difficulties does not affect the treatment of that loan in the ACL calculation. If the modified loan is individually evaluated in the ACL calculation for other factors, it will remain within the population of loans that are individually evaluated. Otherwise, the loan will be collectively evaluated based on its loan class. If a modified loan or portion of a modified loan is subsequently deemed uncollectible, the loan or the uncollectible portion of the loan charged off. If a charge-off occurs, the amortized cost basis of the loan is reduced by the uncollectible amount and the ACL is adjusted.

BancShares monitors the performance of loans that are modified to borrowers experiencing financial difficulty to assess the effectiveness of its modification efforts.

During 2024, two loans were designated as modifications for a borrower experiencing financial difficulties under ASU 2023-02. The loans were modified to provide extended amortization terms. Both loans were current as of December 31, 2024 and had a combined amortized cost of $44,000. The loans were in nonaccrual status as of December 31, 2024, and, due to the balance outstanding, below the threshold to be individually evaluated in the ACL calculation.

During 2023, a single non-owner-occupied commercial mortgage loan was designated as a modification for a borrower experiencing financial difficulties under ASU 2023-02. The loan was modified to provide a 12-month extension for repayment and a change from an amortizing status to an interest-only status. The loan was current as of December 31, 2023 and had an amortized cost of $108,000. The loan was in a nonaccrual status as of December 31, 2023, and was therefore individually evaluated in the ACL calculation. The loan was deemed to be collateral-dependent, but the value of the collateral was greater than the loan value, and no impairment was recorded.

There was no OREO as of December 31, 2024 and 2023. The recorded investment in residential mortgage loans in the process of foreclosure totaled $96,000 and $82,000 at December 31, 2024 and December 31, 2023, respectively.

Note 4. Premises and Equipment

The components of premises and equipment were as follows:

	December 31, 2024	December 31, 2023
Land	$ 20,180	$ 20,911
Buildings and improvements	73,983	72,625
Furniture and equipment	25,543	26,231
Construction in progress	2,734	1,073
Premises and equipment, gross	122,440	120,840
Less: accumulated depreciation	(61,471)	(59,700)
Premises and equipment, net of accumulated depreciation	$ 60,969	$ 61,140

Depreciation and amortization totaling $3.8 million and $4.0 million in 2024 and 2023, respectively, are included in occupancy and furniture and equipment expenses. Construction in progress represents land acquired for expansion or facilities being built or renovated.

(Dollars in Thousands for Tabular Presentations)

Note 4. Premises and Equipment (continued)

Premises and Equipment Lease Commitments

As of December 31, 2024 and 2023 BancShares had operating lease right of use assets of $2.8 million and $3.2 million, respectively and operating lease liabilities of $3.0 million and $3.4 million, respectively. BancShares maintains operating leases on land and buildings for certain branch facilities. Most leases include renewal options, with renewal terms that management is reasonably certain to exercise extending up to ten years. The exercise of renewal options is based on the judgment of management as to whether or not the renewal option is reasonably certain to be exercised. Factors in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to Southern if the option is not exercised. As allowed by the standard, leases with a term of 12 months or less are not recorded in the consolidated balance sheets and instead are recognized in lease expense on a straight-line basis over the lease term.

Operating lease expense, included in occupancy expense in the consolidated statements of income and comprehensive income, totaled $851,000 and $810,000 during 2024 and 2023, respectively, all of which relates to fixed obligations. Short-term leases of equipment, included in furniture and equipment expense in the consolidated statements of income and comprehensive income, totaled $35,000 and $7,000 for 2024 and 2023, respectively, while leases of facilities owned or subleases of facilities leased, in which Southern is the lessor, included in other noninterest income in the consolidated statements of income and comprehensive income, totaled $228,000 and $137,000 during 2024 and 2023, respectively. Lease payments under operating leases that were applied to the operating lease liability totaled $741,000 and $663,000 during 2024 and 2023, respectively.

The following table reconciles future undiscounted lease payments to the operating lease liability as of December 31, 2024.

2025	$ 827
2026	644
2027	535
2028	526
2029	455
Thereafter	362
Total undiscounted operating lease liabilities	3,349
Imputed interest	304
Total operating lease liabilites	$ 3,045
Weighted average lease term in years	7.14
Weighted average discount rate	4.40%

As of December 31, 2024 and 2023, Southern did not maintain any finance leases or leases with related parties, and the number and dollar amount of equipment leases and short-term leases was not material.

Note 5. Derivatives and Hedging Activities

BancShares is exposed to certain risk arising from both its business operations and economic conditions. BancShares 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. BancShares may also enter 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.

Fair Value Hedges of Interest Rate Risk

BancShares is exposed to changes in the fair value of certain of its pools of investment securities available for sale due to changes in benchmark interest rates. During the first quarter of 2023, BancShares entered into a $100 million notional value interest rate swap to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. The swap was designated as a fair value hedge, which results in the payment of

(Dollars in Thousands for Tabular Presentations)

Note 5. Derivatives and Hedging Activities (continued)

fixed-rate amounts to a counterparty in exchange for the receipt of variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. For derivatives that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income in the consolidated statements of income and comprehensive income even if the gain (loss) on the hedged item would otherwise be recorded in other comprehensive income.

The following table provides information regarding the fair value hedge and the related cumulative basis adjustment as of December 31, 2024 and 2023:

Location in the consolidated balance sheets	Carrying amount of the hedged assets	Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged asset
December 31, 2024		
Investment securities available for sale	$ 215,372	$ (521)
December 31, 2023		
Investment securities available for sale	217,111	(602)

The carrying amounts include the amortized cost basis of a closed portfolio of investment securities available for sale designated for the hedging relationships. Management anticipates the remaining amortized cost of the closed portfolio will exceed the notional amount of the fair value hedge for the designated hedged period.

The following table presents the fair value of BancShares' derivative assets as well as their classification on the consolidated balance sheets as of December 31, 2024 and 2023. There were no derivative liabilities during either period.

	Notional amount	Consolidated balance sheet location	Fair value
Derivatives designated as hedging instruments:			
December 31, 2024	$ 100,000	Other assets	$ 512
Interest rate products			
December 31, 2023			
Interest rate products	100,000	Other assets	596

The following table presents the effect of BancShares' derivative financial instruments on the consolidated statements of income and comprehensive income for the years ended December 31, 2024 and 2023.

	Year Ended December 31,	
Interest income (expense) on fair value hedging relationships	2024	2023
Basis adjustment related to hedged item	$ (521)	$ (602)
Fair value hedge	(84)	596
Interest income resulting from fair value hedge	1,570	1,216
Total income resulting from fair value hedge, net	$ 965	$ 1,210

(Dollars in Thousands for Tabular Presentations)

Note 5. Derivatives and Hedging Activities (continued)

The following table presents a gross presentation, the effects of offsetting, and a net presentation of derivatives as of December 31, 2024 and 2023. The net amounts of derivative assets can be reconciled to the tabular disclosure of fair value, which identifies the location of the derivative asset on the consolidated balance sheet.

				Gross amounts not offset in the consolidated balance sheets		
	Gross amounts of recognized assets	Gross amounts offset in consolidated balance sheets	Net amounts presented in the consolidated balance sheets	Financial instruments	Cash collateral received	Net amount
December 31, 2024						
Derivatives	$ 512	$ -	$ 512	$ -	$ 512	$ -
December 31, 2023						
Derivatives	596	-	596	-	596	-

BancShares has agreements with its derivative counterparty that contain a provision where if the BancShares defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on its derivative obligations. BancShares also has agreements with its derivative counterparty that contain a provision that could require additional collateral if we fail to maintain our status as a well or adequately capitalized institution. As of December 31, 2024, there were no derivatives in a net liability position.

Note 6. Income Taxes

Allocation of federal and state income taxes between current and deferred portions for the years ended December 31 is as follows:

	2024	2023
Current:		
Federal	$ 10,016	$ 8,874
State	1,526	936
Total	11,542	9,810
Deferred:		
Federal	30,703	29,025
State	(22)	(81)
Total	30,681	28,944
Total tax expense	$ 42,223	$ 38,754

A reconciliation of income tax expense computed at the statutory federal income tax rate of 21 percent to income tax expense included in net income is as follows:

	2024	2023
Tax at statutory federal rate	$ 42,010	$ 39,300
State income tax expense, net of federal benefit	1,292	732
Tax exempt income	(939)	(961)
Dividends received deduction	(170)	(108)
Other	30	(209)
Total	$ 42,223	$ 38,754

(Dollars in Thousands for Tabular Presentations)

Note 6. Income Taxes (Continued)

The components of the net deferred tax liability (included in other liabilities) at December 31, 2024 and December 31, 2023 are as follows:

	December 31,	
	2024	2023
Deferred tax assets:		
Allowance for credit losses	$ 7,641	$ 7,411
Pension liability	(609)	(736)
Deferred compensation	701	730
Unrealized losses on investment securities available for sale	50,484	49,265
Operating lease liabilities	685	770
Other	41	2
Total deferred tax assets	58,943	57,442
Deferred tax liabilities:		
Depreciation	(532)	(548)
Intangibles	(1,571)	(1,571)
Pension funding commitment	(3,534)	(3,531)
Unrealized gains on equity securities	(91,655)	(60,572)
FDIC acquisition	(779)	(1,220)
Operating lease right of use assets	(640)	(719)
Other	(656)	(596)
Total deferred tax liabilities	(99,367)	(68,757)
Net deferred tax (liability) assets	$ (40,424)	$ (11,315)

In November 2022, North Carolina adopted a graduated reduction in its corporate income tax rate. Beginning in 2025 the corporate tax rate will be reduced from 2.50% to 0% in years subsequent to December 31, 2029. When initially remeasured in 2022, the net deferred tax asset related to investment securities available for sale was reduced by $2.1 million, offset by a charge to state income tax expense. During 2023, the deferred tax asset was remeasured, resulting in a $197,000 increase in the net deferred tax asset related to investment securities available for sale, offset by a credit to state income tax expense. During 2024, the deferred tax asset was remeasured, resulting in a $493,000 reduction in the net deferred tax asset related to investement securities available for sale, offset by a charge to state income tax expense. As of December 31, 2024 and 2023, the adjustment resulting from remeasurement of all other deferred tax assets and liabilities resulting from the prospective changes in the state income tax rate was not material.

BancShares has invested in qualified affordable housing projects in the amount of $8.4 million at December 31, 2024 and 2023. The investment balance net of amortized tax benefits is $4.5 million and $5.1 million at December 31, 2024 and 2023, respectively and is shown in the consolidated balance sheets in other assets. BancShares also has commitments, which are included in other liabilities in the consolidated balance sheets, to provide additional capital calls in the amount of $1.3 million and $1.7 million at December 31, 2024 and 2023, respectively. It is anticipated that these additional commitment amounts will be paid within the next three years.

BancShares accounts for its qualified affordable housing projects under the proportional amortization method, amortizing the initial cost of the investement in proportion to the tax credits and other tax benefits received. Subject to any applicable limitations, investment tax credits are recognized as a reduction in income tax expnse in the period in which the credit is generated.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in BancShares' consolidated financial statements. BancShares has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2024. Interest and penalties related to income tax assessments, if any, are reflected in income tax expense in the consolidated statements of income and comprehensive income. Fiscal years ending on or after December 31, 2021 remain subject to examination by federal and state tax authorities.

(Dollars in Thousands for Tabular Presentations)

Note 7. Deposits

Deposits at December 31 are summarized as follows:

	2024	2023
Demand	$ 1,344,869	$ 1,406,689
Time	724,987	595,384
Money market accounts	1,317,467	1,109,646
Checking with interest	785,347	732,843
Savings	271,257	293,202
Total deposits	$ 4,443,927	$ 4,137,764

Total time deposits with a denomination of $250,000 or more were $318.0 million and $187.9 million at December 31, 2024 and 2023, respectively.

At December 31, 2024, the scheduled maturities of time deposits was:

2025	$ 698,260
2026	16,277
2027	6,071
2028	2,579
2029	1,765
Thereafter	35
Total time deposits	$ 724,987

Time deposits as of December 31, 2024 and 2023, respectively, included $10.0 million and $102.5 million of brokered deposits, all of which have scheduled maturities during the subsequent twelve months.

Note 8. Short and Long-Term Borrowings

Short-term borrowings at December 31 were:

	2024	2023
Repurchase agreements	$ 32,497	$ 40,495
FHLB advances	130,000	185,000
Total short-term borrowings	$ 162,497	$ 225,495

For the years ended December 31, 2024 and 2023, short-term borrowings outstanding averaged $191.0 million and $189.6 million, respectively, with weighted average rates of 4.55% and 4.17% as of December 31, 2024 and 2023, respectively.

Southern utilizes securities sold under agreements to repurchase to facilitate the needs of our customers. Repurchase agreements are transactions whereby Southern offers to sell to a counterparty an undivided interest in an eligible security at an agreed upon purchase price, and which obligates Southern to repurchase the security on an agreed upon date at an agreed upon repurchase price plus interest at an agreed upon rate. Securities sold under agreements to repurchase are recorded at the amount of cash received in connection with the transaction and are reflected as short-term borrowings in the consolidated balance sheets.

Southern monitors collateral levels on a continuous basis and maintains records of each transaction specifically describing the applicable security and the counterparty's fractional interest in that security, and segregates the security from its general assets in accordance with regulations governing custodial holdings of securities. The primary risk with Southern's repurchase agreements is market risk associated with the investments securing the transactions, as Southern may be required to provide additional collateral based on fair value changes of the underlying investments. Securities pledged as collateral under repurchase agreements are held by Southern's safekeeping agents.

(Dollars in Thousands for Tabular Presentations)

Note 8. Short and Long-Term Borrowings (continued)

At December 31, 2024 and 2023, investment securities with a carrying value of $39.0 million and $37.2 million, respectively were pledged for repurchase agreements. The securities collateralizing the repurchase agreements have been delivered to a third party custodian for safekeeping. As of December 31, 2024, securities pledged to secure repurchase obligations included $12.0 million U.S Treasury and government-sponsored entities debt obligations and $27.0 million government-sponsored mortgage-backed securities. As of December 31, 2023, securities pledged to secure repurchase obligations included $11.7 million U.S Treasury and government-sponsored entities debt obligations, $24.8 million government-sponsored mortgage-backed securities, and $732,000 obligations of state and political subdivisions.

Southern and BancShares each maintain various credit lines that provide access to liquidity as needed. While certain of these lines are unsecured, other lines are secured by pledged assets, including loans, investment securities available for sale, and equity securities.

Long-term borrowings at December 31 were:

	2024	2023
FHLB advances	$ 30,000	$ 60,000
Subordinated notes payable	70,000	70,000
Senior notes payable	10,000	10,000
Unamortized issuance costs	(673)	(777)
Total long-term borrowings	$ 109,327	$ 139,223

The $30 million long-term FHLB advance outstanding as of December 31, 2024, has a 4.583% rate and will mature in March 2026.

On June 23 2021, BancShares completed the private placement of $80 million aggregate principal amount of its 3.125% Fixed-to-Floating Rate Subordinated Notes due June 30, 2031 and redeemable at the option of BancShares starting with the interest payment due June 30, 2026. Redemption is subject to obtaining the prior approval of the Federal Reserve to the extent such approval is then required under the rules of the Federal Reserve, or earlier upon the occurrence of certain events. After the initial 5 year fixed rate period, the note will revert to the three month Secured Overnight Financing Rate ("SOFR") plus 241 basis points.

On June 23, 2021, BancShares completed its private placement of $10 million aggregate principal amount of its 2.625% Fixed-Rate Senior Notes due June 30, 2026 to an affiliated institution.

During 2023, BancShares repurchased and canceled $10 million of its 3.125% Fixed-to-Floating Rate Subordinated Notes. The securities were repurchased at a discount, and BancShares recorded a $2.2 million gain that is included within noninterest income in the consolidated statements of income and comprehensive income.

Total long-term borrowings averaged $115.0 million and $131.9 million for 2024 and 2023, respectively and the average cost was 3.71% and 3.78% for 2024 and 2023, respectively.

Note 9. Retirement Plans

Southern has a noncontributory, defined benefit pension plan which covers a substantial number of full-time employees. Southern discontinued offering benefits under the defined benefit plan to employees hired after June 30, 2012. Employees hired who met eligibility requirements on or before June 30, 2012 were allowed the option of continued participation in the defined benefit plan and the existing 401(k) plan or enrollment in an enhanced 401(k) plan, discussed further below. Employees who elected to enroll in the enhanced plan discontinued the accrual of additional years of service under the defined benefit plan. Under the plan, retirement benefits are based on years of service and average earnings. The plan's assets consist primarily of investments in fixed income securities and listed common stocks. It is Southern's policy to determine the service cost and projected benefit obligation using the Projected Unit Credit Cost method.

(Dollars in Thousands for Tabular Presentations)

Note 9. Retirement Plans (continued)

The following sets forth pertinent information regarding the projected benefit obligation of the pension plan for the periods indicated:

	2024	2023
Projected benefit obligation, beginning of year	$ 72,895	$ 68,719
Service cost	1,161	1,202
Interest cost	3,703	3,767
Actuarial (gain) loss	(2,564)	2,964
Benefits paid	(3,925)	(3,757)
Projected benefit obligation, end of year	$ 71,270	$ 72,895

The accumulated benefit obligation for the pension plan at the end of 2024 and 2023 was $64.1 million and $66.4 million, respectively. Southern uses a measurement date of December 31 for its pension plan.

The weighted average assumptions used to determine benefit obligations, at the end of the year were as follows:

	2024	2023
Discount rate	5.54%	5.20%
Rate of compensation increase	4.00%	4.00%

The change in the fair value of plan assets is as follows:

	2024	2023
Fair value of plan assets, beginning of year	$ 93,069	$ 86,746
Actual return on plan assets	1,546	10,080
Benefits paid	(3,925)	(3,757)
Fair value of plan assets, end of year	$ 90,690	$ 93,069

Benefits paid include only amounts paid directly from plan assets.

The following tables provide information regarding the funded status of the plan and information regarding other amounts recognized in the consolidated balance sheets:

	2024	2023
Funded status, end of year		
Fair value of plan assets	$ 90,690	$ 93,069
Projected benefit obligation	(71,270)	(72,895)
Funded status	19,420	20,174
Amounts not yet recognized:		
Unrecognized net loss	-	-
Net amount recognized	$ 19,420	$ 20,174

	2024	2023
Amounts recognized in the consolidated balance sheets:		
Other assets	$ 19,420	$ 20,174
Amounts recognized in accumulated other comprehensive income consist of:		
Net gain	$ (2,689)	$ (3,454)
Prior service cost	-	-
Accumulated other comprehensive income	$ (2,689)	$ (3,454)

(Dollars in Thousands for Tabular Presentations)

Note 9. Retirement Plans (Continued)

The following table discloses the components of periodic benefit cost related to the pension plan for the years ended December 31, 2024 and 2023:

	2024	2023
Service cost	$ 1,161	$ 1,202
Interest cost	3,703	3,767
Expected return on plan assets	(4,875)	(4,997)
Net periodic benefit credit	$ (11)	$ (28)

Investment decisions regarding the plan's assets seek to achieve a favorable annual return through a diversified portfolio that will provide needed capital appreciation and cash flow to allow both current and future benefit obligations to be paid. The target asset mix may change if the objectives for the plan's assets or risk tolerance change or if a major shift occurs in the expected long-term risk and reward characteristics of one or more asset classes.

The asset allocation for Southern's pension plan at the end of 2024 and 2023, and the target allocation for 2025, by asset category, is as follows:

	Target Allocation for	Percentage of Plan Assets at December 31,	
Asset category	2025	2024	2023
Cash and cash equivalents	2%	4%	2%
Equity securities	20%	22%	20%
Debt securities	78%	74%	78%
Total	100%	100%	100%

Southern's investment strategy calls for earning an adequate return on assets while not exposing the assets to unnecessary risk. The plan's assets are primarily invested in marketable, fixed rate U. S. Government and corporate securities and marketable equity securities. The plan's target allocation was modified in recent years to increase the exposure to debt securities, while decreasing the exposure to equity securities.

(Dollars in Thousands for Tabular Presentations)

Note 9. Retirement Plans (Continued)

The fair values of pension plan assets at December 31, 2024 and 2023, by asset category are as follows:

Asset Category	Fair value as of December 31	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Target Allocation	Actual % of Plan Assets
2024						
Cash and cash equivalents	$ 3,481	$ 3,481	$ -	$ -	2%	4%
Equity securities:					20%	22%
Individual equities	3,674	3,674	-	-		
Mutual funds	2,903	2,903	-	-		
Exchange traded funds	13,186	13,186	-	-		
Debt securities:					78%	74%
Mutual funds	67,446	67,446	-	-		
Total pension assets	$ 90,690	$ 90,690	$ -	$ -	100%	100%
2023						
Cash and cash equivalents	$ 1,778	$ 1,778	$ -	$ -	1%	2%
Equity securities:					35%	33%
Individual equities	3,562	3,562	-	-		
Mutual funds	16,571	16,571	-	-		
Exchange traded funds	11,619	11,619	-	-		
Debt securities:					64%	65%
Bonds	20,162	9,052	11,110	-		
Mutual funds	39,377	39,377	-	-		
Total pension assets	$ 93,069	$ 81,959	$ 11,110	$ -	100%	100%

BancShares does not anticipate making any contributions to the plan during 2025. Estimated payments to pension plan participants in the indicated periods are as follows:

2025	$ 4,163
2026	4,261
2027	4,413
2028	4,479
2029	4,659
2030 - 2034	25,444

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended December 31, 2024 and 2023 are as follows:

	2024	2023
Discount rate	5.20%	5.50%
Rate of compensation increase	4.00%	4.00%
Expected return on plan assets	5.30%	5.50%

The discount rates above reflect the discount in effect at January 1 of the plan year. The expected rate of return on plan assets for each period was determined based on analysis of current asset yields and anticipated portfolio yields based on projected asset composition.

Employees hired before July 1, 2012 are also eligible to participate in a 401(k) plan through deferral of portions of their salary. Based on the employee's contribution, BancShares will match up to 100% of the first 3% of the participant's contributions and 50% of the next 3%. In addition, BancShares also offers an enhanced 401(k) plan for certain employees. BancShares will match 100% of the first 6% of the participant's contributions. In addition, BancShares may make discretionary contributions. BancShares made participating contributions of $3.0 million during 2024 and 2023.

Note 10. Regulatory Requirements and Restrictions

BancShares is subject to regulations with respect to certain risk-based capital ratios. These risk-based capital ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted based on the rules to reflect categorical credit risk. In addition to the risk-based capital ratios, the regulatory agencies have also established a leverage ratio for assessing capital adequacy. The leverage ratio is equal to Tier 1 capital divided by total consolidated on-balance sheet assets (minus amounts deducted from Tier 1 capital). The leverage ratio does not involve assigning risk weights to assets.

Southern is also subject to the regulatory framework for prompt corrective action, which identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and is based on specified thresholds for each of the three risk-based regulatory capital ratios (CET1, Tier 1 capital and total capital) and for the leverage ratio.

The following table presents actual and required capital ratios as of December 31, 2024 and 2023 for BancShares and Southern under the Basel III capital rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended, to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum for capital adequacy purposes		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2024:						
Common equity Tier 1 to risk-weighted assets:						
BancShares	$ 579,076	13.318%	$ 195,665	4.500%	$ 282,627	6.500%
Southern	491,071	13.160%	167,922	4.500%	242,554	6.500%
Tier 1 capital to risk-weighted assets						
BancShares	579,076	13.318%	260,886	6.000%	347,848	8.000%
Southern	491,071	13.160%	223,896	6.000%	298,528	8.000%
Total capital to risk-weighted assets						
BancShares	675,417	15.534%	347,848	8.000%	434,810	10.000%
Southern	526,485	14.109%	298,529	8.000%	373,161	10.000%
Tier 1 capital to average assets (leverage ratio):						
BancShares	579,076	10.671%	217,069	4.000%	271,337	5.000%
Southern	491,071	9.367%	209,712	4.000%	262,139	5.000%
December 31, 2023:						
Common equity Tier 1 to risk-weighted assets:						
BancShares	$ 509,090	12.190%	$ 187,933	4.500%	$ 271,459	6.500%
Southern	437,676	11.814%	166,718	4.500%	240,815	6.500%
Tier 1 capital to risk-weighted assets						
BancShares	509,090	12.190%	250,578	6.000%	334,103	8.000%
Southern	437,676	11.814%	222,291	6.000%	296,388	8.000%
Total capital to risk-weighted assets						
BancShares	604,157	14.466%	334,111	8.000%	417,639	10.000%
Southern	471,920	12.738%	296,388	8.000%	370,485	10.000%
Tier 1 capital to average assets (leverage ratio):						
BancShares	509,090	10.020%	203,230	4.000%	254,037	5.000%
Southern	437,676	8.834%	198,173	4.000%	247,717	5.000%

BancShares and Southern had capital conservation buffers of 7.32% and 6.11%, respectively, at December 31, 2024. These buffers exceed the 2.5% requirement, and therefore, result in no limit on distributions.

The primary source of funds for the dividends paid by BancShares to its shareholders is dividends received from its banking subsidiary. Southern is restricted as to dividend payout by state laws applicable to banks and may pay dividends only out of retained earnings. Should at any time its surplus be less than 50% of its paid-in capital stock, Southern may not declare a dividend until it has transferred from retained earnings to surplus 25% of its undivided profits or any lesser

Note 10. Regulatory Requirements and Restrictions (continued)

percentage that may be required to restore its surplus to an amount equal to 50% of its paid-in capital stock. Additionally, dividends paid by Southern may be limited by the need to retain sufficient earnings to satisfy minimum capital requirements imposed by the FDIC. Dividends on BancShares' common shares may be paid only after dividends on preferred series B and C shares have been paid. Common share dividends are based upon BancShares' profitability and are paid at the discretion of the Board of Directors.

Management does not expect any of the foregoing restrictions to materially limit its ability to pay dividends comparable to those paid in the past.

Note 11. Commitments, Contingencies and Concentration of Credit Risk

In the normal course of business there are various commitments and contingent liabilities outstanding, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. Southern is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and undisbursed advances on customer lines of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

Southern is exposed to credit loss for the contractual notional amount of commitments to extend credit and standby letters of credit in the event of nonperformance by the other party to the financial instrument. Southern uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

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

Standby letters of credit are commitments issued by Southern to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The maximum potential amount of undiscounted future payments related to standby letters of credit was $9.7 million and $8.5 million at December 31, 2024 and 2023, respectively. At December 31, 2024, BancShares has recorded no liability for the carrying amount of the obligation to perform as a guarantor, and no liability is considered necessary. Substantially all standby letters of credit are secured by real estate and/or guaranteed by third parties in the event BancShares had to advance funds to fulfill the guarantee.

Outstanding commitments to lend at December 31, 2024 and December 31, 2023 were $778.5 million and $847.1 million. Outstanding commitments to lend at December 31, 2024 generally expire within one year, whereas commitments associated with undisbursed advances on customer lines of credit at December 31, 2024 generally expire within one to five years.

Non-recourse commitments to sell loans amounted to $8.1 million and $6.0 million at December 31, 2024 and 2023, respectively. BancShares utilized investor commitments to protect its mortgage loans held for sale from interest rate risk from the time of origination to the time of sale. These commitments are accounted for at fair market value. Unfunded residential mortgage loan commitments for loans to be sold are also accounted for at fair market value. These fair market value adjustments were insignificant as of and for the years ended December 31, 2024 and 2023.

Southern is also committed to leases for banking facilities. See Note 4 – Premises and Equipment for lease commitments at December 31, 2024.

Southern grants agribusiness, commercial and consumer loans to customers primarily in eastern North Carolina and southeastern Virginia. BancShares does not have any special purpose entities or other similar forms of off-balance sheet financing arrangements.

(Dollars in Thousands for Tabular Presentations)

Note 11. Commitments, Contingencies and Concentration of Credit Risk (continued)

BancShares is also involved in various legal actions arising in the normal course of business. Management is of the opinion that the outcome of such actions will not have a material adverse effect on the consolidated financial position of BancShares.

Note 12. Parent Company Financial Statements

Presented below are the condensed balance sheets (parent company only) of Southern BancShares (N.C.), Inc. as of December 31, 2024 and 2023 and condensed statements of income and cash flows for the years then ended.

CONDENSED BALANCE SHEETS

	December 31,	
	2024	2023
ASSETS		
Cash	$ 16,596	$ 16,098
Investment in marketable equity securities at fair value	395,318	268,416
Investment securities available for sale, at fair value	7,853	7,466
Other assets	2,531	2,540
Investment in subsidiary	338,431	288,469
Total assets	$ 760,729	$ 582,989
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued liabilites	$ 77,751	$ 43,784
Notes payable	79,327	79,223
Total liabilities	157,078	123,007
Shareholders' equity	603,651	459,982
Total liabilities and shareholders' equity	$ 760,729	$ 582,989

CONDENSED STATEMENTS OF INCOME

	Year Ended December 31,	
	2024	2023
Interest and dividend income	$ 2,315	$ 1,699
Dividends from bank subsidiary	10,000	16,000
Unrealized gains on marketable equity securities	124,764	118,285
Gain on redemption of long-term borrowings	-	2,184
Total income	137,079	138,168
Interest expense	2,554	2,690
Other expense	535	438
Total expense	3,089	3,128
Income before income tax	133,990	135,040
Income tax expense	29,561	17,385
Net income before equity in undistributed earnings of subsidiary	104,429	117,655
Equity in undistributed income of subsidiary	53,395	30,733
Net income	$ 157,824	$ 148,388

(Dollars in Thousands for Tabular Presentations)

Note 12. Parent Company Financial Statements (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2024	2023
OPERATING ACTIVITIES:		
Net income	$ 157,824	$ 148,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(53,395)	(30,733)
Deferred income tax expense	26,200	24,840
Unrealized gain on marketable equity securities	(124,764)	(118,285)
Unrealized loss on investment securities available for sale	387	-
Gain on redemption of long-term borrowings	-	(2,184)
Gain on sale of investment securities available for sale	-	-
Amorization of debt issuance costs	104	110
Change in other assets	(9)	-
Change in accrued liabilities	3,549	(7,642)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,896	14,494
INVESTING ACTIVITIES:		
Purchases of marketable equity securities	(2,138)	(2,349)
Proceeds from sale of marketable equity securities	-	-
NET CASH USED BY INVESTING ACTIVITIES	(2,138)	(2,349)
FINANCING ACTIVITIES:		
Redemption of long-term borrowings	-	(7,816)
Dividends paid	(2,163)	(2,198)
Issuance of common stock	146	-
Purchase and retirement or redemption of stock	(5,243)	(6,692)
NET CASH USED BY FINANCING ACTIVITIES	(7,260)	(16,706)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	498	(4,561)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	16,098	20,659
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	$ 16,596	$ 16,098
SUPPLEMENTAL DISCLOSURES OF CASH PAID DURING THE YEAR FOR:		
Interest	$ 2,422	$ 2,559

Note 13. Fair Value of Financial Instruments

BancShares utilizes fair value measurements to record certain financial instruments at fair value and to determine fair value disclosures. Fair value estimates are made by management at specific points in time based on relevant information about the financial instrument and the market. These estimates do not consider any premium or discount that could result from offering BancShares' entire holdings of a particular financial instrument nor are potential taxes and other expenses that would be incurred in an actual sale considered. Because no market exists for a significant portion of BancShares' financial instruments, fair value estimates are based on judgments regarding future expected losses, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions and/or the methodology used could significantly affect the estimates disclosed. Fair values disclosed could vary significantly from amounts realized in actual transactions.

Fair value estimates are based on existing on- and off-balance sheet financial instruments. Fair values are not disclosed for assets and liabilities that are not financial instruments. Taxes resulting from the realization of the unrealized gains and losses are not considered in the fair value estimates.

BancShares reports certain financial instruments at fair value on a recurring basis, including marketable equity securities, investment securities available-for-sale and certain derivative instruments. BancShares may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value that was below cost as of the balance sheet date. Assets reported at fair value on a nonrecurring basis include impaired loans, loans held for sale, goodwill, and OREO.

BancShares groups financial assets and financial liabilities 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. These levels are:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party services for similar or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or brokered traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and due from banks, Interest–bearing deposits with banks, Certificates of deposit with banks, Accrued interest receivable, Short-term borrowings, and Accrued interest payable - The carrying amounts for cash and due from banks, interest-bearing deposits with banks, certificates of deposits with banks, accrued interest receivable, short-term borrowings, and accrued interest payable are equal to their fair values due to the short-term nature of these financial instruments. These items are considered Level 1.

Marketable equity securities - Marketable equity securities are measured at fair value using observable closing prices. The valuation also considers the amount of market activity by examining the trade volume of each security. Marketable equity securities are classified as level 1 since they are traded in an active market.

Note 13. Fair Value of Financial Instruments (Continued)

Investment securities available for sale - Investment securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, or U.S. Treasury and agency mortgage-backed securities issued by government sponsored entities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government-sponsored entities, obligations of states and political subdivisions and corporate debt securities. Securities classified as level 3 include asset-backed securities in less liquid markets given that there is an absence of observable inputs for these and similar securities in the debt markets. For these securities, a present value approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs provides representative fair values, and therefore, has been used rather than a market valuation approach. This income valuation approach requires numerous steps in determining fair value. These steps include estimating credit quality of the collateral, generating asset defaults, forecasting cash flows for underlying collateral, and determining losses given default assumptions.

Loans held for sale - Fair value for loans held for sale is generally based on market prices for loans with similar characteristics or external valuations. Loans held for sale are classified as level 2.

Loans - Fair value of loans is an estimate of exit price. Exit price is estimated based on a discounted future cash flow analysis using estimated credit losses expected to be incurred over the remaining life of the loans and current interest rates offered on loans with similar terms and credit quality. The inputs used in the fair value measurements for loans and leases are considered Level 3 inputs.

Stock in Federal Home Loan Bank of Atlanta - The carrying amount for Federal Home Loan Bank of Atlanta stock is equal to the fair value due to the redemption provisions of the stock and no ready available market for such stock. Federal Home Loan Bank of Atlanta stock is considered level 1.

Derivative assets - Fair values for derivative assets were determined using level 2 inputs based on observed pricing for similar assets and model-based valuation techniques for which all significant assumptions are observable in the market.

Deposits **-** The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at year end. The fair value of certificates of deposit is estimated by discounting the future cash flows using the current rates paid for similar deposits. Deposits are considered level 2.

Long-term borrowings - The fair value of long-term borrowings reflects discounting future cash flows using the current interest rates for similar maturities. Long-term borrowings are considered level 2.

Commitments - Southern's commitments to extend credit have no carrying value and are generally at variable rates and/or have relatively short terms to expiration. Accordingly, these financial instruments are deemed to have no material fair value.

(Dollars in Thousands for Tabular Presentations)

Note 13. Fair Value of Financial Instruments (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

	Fair Value	Quoted Prices in Active Markets for Instrument (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2024				
Marketable equity securities	$ 466,104	$ 466,104	$ -	$ -
Investment securities available for sale:				
U.S. Treasuries and government sponsored entities debt	310,204	310,204	-	-
Corporate debt securities	11,156	-	11,156	-
Obligations of states and political subdivisions	183,022	-	183,022	-
Government-sponsored mortgage-backed securities	708,945	-	708,945	-
Derivative assets	512	-	512	-
Total	$ 1,679,943	$ 776,308	$ 903,635	$ -
December 31, 2023				
Marketable equity securities	$ 315,951	$ 315,951	$ -	$ -
Investment securities available for sale:				
U.S. Treasuries and government sponsored entities debt	315,913	315,913	-	-
Corporate debt securities	10,803	-	10,803	-
Obligations of states and political subdivisions	191,316	-	191,316	-
Government-sponsored mortgage-backed securities	783,613	-	783,613	-
Derivative assets	596	-	596	-
Total	$ 1,618,192	$ 631,864	$ 986,328	$ -

There were no investments with fair values determined by unobservable inputs during 2024 or 2023.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

Loans in excess of $100,000 are individually evaluated when it is probable that all amounts due under the contractual terms of the loan will not be collected when due, and a specific allowance is established, if required. A specific allowance, which is based on level 3 unobservable inputs, is required if the fair value of the expected repayments or the collateral is less than the recorded investment in the loan. Since individually evaluated loans loans are reviewed quarterly, they are deemed to be at fair value whenever a specific allowance exists.

OREO is measured and reported at fair value using level 3 inputs for valuations based on non-observable criteria. There was no OREO at December 31, 2024 and 2023.

At December 31, 2024 and 2023, BancShares had certain equity securities without a readily determinable market value, which were measured using the measurement alternative. Under the measurement alternative, these investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. As a result, these investments are valued using level 2 inputs. No such adjustments were recorded during the years ending December 31, 2024 and 2023.

At December 31, 2024 and December 31, 2023, BancShares had individually evaluated loans that are measured at fair value on a nonrecurring basis. BancShares applies discounts ranging between 6% and 15% for expected liquidation and sales costs to fair value estimates for impaired loans. Although there was no OREO reported at December 31, 2024 and 2023, similar discounts would be considered to estimate fair value.

(Dollars in Thousands for Tabular Presentations)

Note 13. Fair Value of Financial Instruments (Continued)

The tables below present the balances of assets and liabilities measured at fair value on a nonrecurring basis.

	Fair value	Quoted prices for Active Markets for Instruments (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2024				
Individually evaluated loans	$ 431	$ -	$ -	$ 431
2023				
Individually evaluated loans	944	-	-	944

Certain assets are carried at fair value on a nonrecurring basis. Loans held for sale are carried at the lower of aggregate cost or fair value and are therefore carried at fair value only when fair value is less than the asset cost. The values of loans held for sale are based on prices observed for similar pools of loans. There have been no fair value adjustments recorded for loans held for sale at December 31, 2024 and 2023. No financial liabilities were carried at fair value on a nonrecurring basis as of December 31, 2024 or December 31, 2023.

The estimated fair values of BancShares' financial instruments at December 31 are as follows:

	2024		2023	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 25,286	$ 25,286	$ 21,333	$ 21,333
Interest-bearing deposits with banks	258,704	258,704	82,740	82,740
Certificates of deposits with banks	1,350	1,350	1,550	1,550
Marketable equity securities	466,104	466,104	315,951	315,951
Investment securities available-for-sale	1,213,327	1,213,327	1,301,645	1,301,645
Loans held for sale	12,431	12,431	3,846	3,846
Loans, net of allowance for credit losses	3,214,674	3,031,585	3,075,950	2,865,152
Stock in Federal Home Loan Bank of Atlanta	10,931	10,931	14,852	14,852
Accrued interest receivable	17,803	17,803	16,780	16,780
Interest rate swap	512	512	596	596
Financial liabilities:				
Deposits	$ 4,443,927	$ 4,435,850	$ 4,137,764	$ 4,128,095
Short-term borrowings	162,497	162,485	225,495	225,495
Long-term borrowings	109,327	97,664	139,223	127,582
Accrued interest payable	2,519	2,519	3,662	3,662

Note 14. Related Parties

One of BancShares' directors is an executive officer, a significant shareholder, and a director of First Citizens BancShares, Inc. At December 31, 2024 the director beneficially owned 6,707 shares, or 8.78% of BancShares' outstanding common stock and 2,000 shares, or 0.80%, of BancShares' outstanding Series B preferred stock. A sibling of that director, who is also a director of BancShares, beneficially owns 6,901 shares, or 9.03%, of BancShares' outstanding common stock.

BancShares has entered into various service contracts with First Citizens BancShares, Inc. and its subsidiary, First-Citizens Bank & Trust Company (collectively "First Citizens"). The following table lists the income received and expenses recorded for transactions with First Citizens during the years ended December 31:

	2024	2023
Income from credit cards	$ 221	$ 219
Trustee for employee benefit plans	406	397

(Dollars in Thousands for Tabular Presentations)

Note 14. Related Parties (continued)

The Bank is party to a contract with First Citizens, under which the Bank refers credit card requests to First Citizens for consideration. If approved by First Citizens, the credit card is issued by First Citizens, which retains all credit risk and servicing responsibilities. In the event an application is not approved by First Citizens, the Bank has the ability to override that decision, in which case Southern assumes the credit risk, while First Citizens retains servicing responsibilities. Southern has pledged collateral to First Citizens to secure its obligation related to credit cards initially declined by First Citizens, but subsequently issued as a result of the Bank's override decision. In the event First Citizens were to elect to sell its credit card receivables, the Bank may repurchase credit cards issued to its customers at a price determined in good faith by the Bank and First Citizens.

In addition to credit cards for our customers, credit cards used by our employees for business-related purposes are provided under agreements with First Citizens. Southern is responsible for repayment of card balances, and our obligation to First Citizens for employee credit cards is secured by pledged assets. As of December 31, 2024, the Bank had pledged investment securities available for sale with a fair value of $2.2 million to secure its obligations to First Citizens related to the various credit card agreements.

Correspondent account balances with First Citizens included in cash and due from banks totaled $217,000 and $189,000 at December 31, 2024 and 2023, respectively. In addition, BancShares had sold to First Citizens loan participations of $1.8 million and $2.1 million as of December 31, 2024 and 2023, respectively.

BancShares owns stock and debt securities in First Citizens as follows:

	2024			2023		
	Number of shares	Amortized cost	Fair value	Number of shares	Amortized cost	Fair value
First Citizens BancShares, Inc.						
Class A common	191,963	$ 15,322	$ 405,622	191,963	$ 15,322	$ 272,390
Class B common	22,619	532	39,787	22,619	532	29,065
Preferred	198,945	4,480	4,432	198,945	4,480	4,001
Total equity securites		20,334	449,841		20,334	305,456
Investment securities available for sale at fair value		7,900	7,853		7,900	7,466
Total First Citizens BancShares, Inc. securities		$ 28,234	$ 457,694		$ 28,234	$ 312,922

BancShares is also related through common ownership with Fidelity BancShares (N.C.), Inc., ("Fidelity") as significant shareholders of BancShares and certain of their related parties are also significant shareholders of Fidelity. At December 31, 2024 and 2023 BancShares had $4.0 million and $6.4 million, respectively, in loan participations sold to Fidelity, and $6.9 million and $7.4 million, respectively, in loan participations purchased from Fidelity. Also, as discussed in Note 8, Fidelity purchased $10 million of senior notes issued by BancShares during 2021.

Note 15. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss included the following as of December 31:

	2024			2023		
	Accumulated other comprehensive loss	Deferred tax benefit (expense)	Accumulated other comprehensive loss net of tax	Accumulated other comprehensive loss	Deferred tax benefit (expense)	Accumulated other comprehensive loss net of tax
Net unrealized losses on investment securities available for sale (1)	$ (233,188)	50,864	$ (182,324)	$ (225,160)	$ 49,724	$ (175,436)
Defined benefit pension plan	2,689	(609)	2,080	3,454	(736)	2,718
State tax rate adjustment	-	-	2,490	-	-	1,859
Total	$ (230,499)	$ 50,255	$ (177,754)	$ (221,706)	$ 48,988	$ (170,859)

(Dollars in Thousands for Tabular Presentations)

Note 15. Accumulated Other Comprehensive Loss (Continued)

	Unrealized gains and losses on available-for-sale securities	Defined benefit pension plan	Total
Balance at January 1, 2023	$ (206,528)	$ 316	$ (206,212)
Other comprehensive income before reclassifications	31,322	1,667	32,989
Amounts reclassified from accumulated other comprehensive income	2,364	-	2,364
Net current period other comprehensive income	33,686	1,667	35,353
Balance at December 31, 2023	(172,842)	1,983	(170,859)
Other comprehensive loss before reclassifications	(6,258)	(638)	(6,896)
Amounts reclassified from accumulated other comprehensive loss	1	-	1
Net current period other comprehensive loss	(6,257)	(638)	(6,895)
Balance at December 31, 2024	$ (179,099)	$ 1,345	$ (177,754)

Unrealized gains and losses on available-for-sale securities are presented inclusive of unrealized gains and losses related to associated fair value hedge.

During 2024 and 2023, the net deferred tax benefit related to the change in net unrealized losses on investment securities available for sale was calculated by reference to state income tax rates that are projected to be in effect in the periods in which the related financial instrument either matures or is expected to be called by the issuer. The difference between the deferred tax benefit and the accumulated other comprehensive loss calculated by reference to the current state income tax rate is shown as the state tax rate adjustment within the preceeding table.

The following table presents the amounts reclassified from accumulated other comprehensive loss and the line items within the consolidated statements of income and comprehensive income for the years ended December 31, 2024 and 2023 that were affected:

Components of accumulated other comprehensive loss	Amount reclassified from accumulated other comprehensive loss	Affected line item in the statement where net income is presented
Year Ended December 31, 2024		
Unrealized losses on investment securities available for sale	$ 1	Realized gains (losses) on investment securities available for sale
	-	Income taxes
Total reclassifications for the period	$ 1	Net income
Year Ended December 31, 2023		
Unrealized losses on investment securities available for sale	$ 3,057	Realized gains (losses) on investment securities available for sale
	(693)	Income taxes
Total reclassifications for the period	$ 2,364	Net income

Note 16. Subsequent Events

On March 5, 2025, Southern entered into multiple interest rate caps to manage interest rate risk. The interest rate caps have maturities between two and three years, and have an aggregate notional amount of $100 million. The caps protect Southern from higher short-term interest rates, which would result in higher interest expense and lower net interest income. The March 2025 interest rate caps will not be designated as hedges at inception. The aggregate fair value as of the inception date was $269,000, and any subsequent gains, losses, periodic interest settlements and other changes in fair value will be reported in noninterest expense.

Management has evaluated subsequent events through March 24, 2025, the date the consolidated statements were available to be issued and, other than the event noted above, there have been no material subsequent events.