

South Atlantic Bancshares, Inc.



2024
Annual
Report





MISSION STATEMENT

To serve, in a fair, balanced, and superior manner, the interest of shareholders, customers, employees, and the public through adherence to high standards of financial soundness, exemplary customer service, employee professionalism, business ethics, corporate citizenship, and profitability.

ABOUT US

South Atlantic Bancshares, Inc. (OTCQX: SABK) is a registered bank holding company based in Myrtle Beach, South Carolina, with \$1.8 billion in total assets. The Company's banking subsidiary, South Atlantic Bank, is a full-service financial institution spanning the entire coastal area of South Carolina.

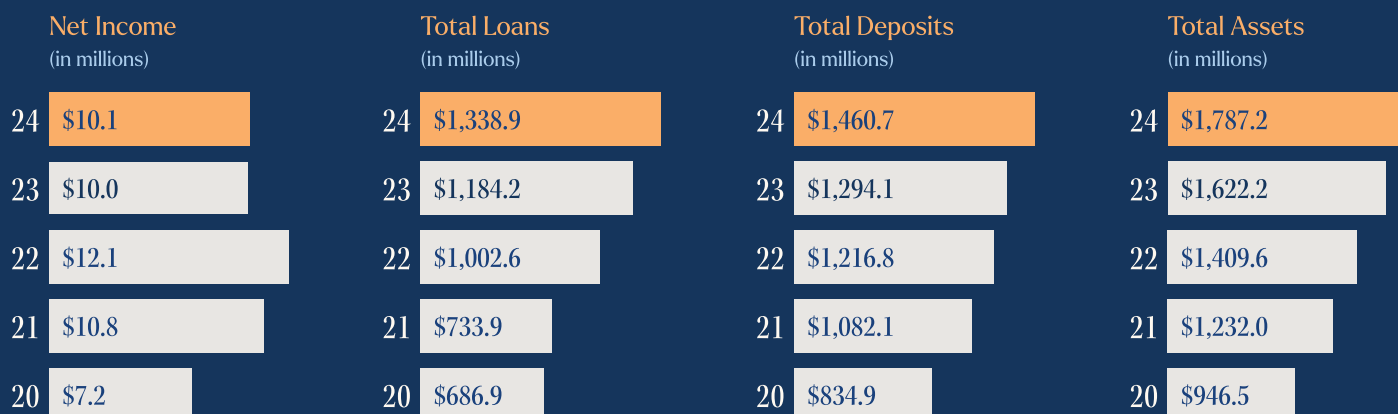
South Atlantic Bank was organized in 2007 to meet the unique financial needs of businesses and consumers in the coastal communities we serve. The Bank's founders recognized that the growing number of larger regional banks in the market had created an opportunity for a locally owned and operated community bank to succeed.

The Bank operates 12 offices in Myrtle Beach, North Myrtle Beach, Murrells Inlet, Pawleys Island, Georgetown, Mount Pleasant, Charleston, Bluffton, Beaufort, Summerville, and Hilton Head Island, South Carolina.

Services include a full range of consumer and commercial banking products, including treasury management and digital banking. The Bank also offers no-fee ATM access, checking, CD and money market accounts, merchant services, mortgage loans, remote deposit capture, and more. For additional information, visit www.southatlantic.bank.

Selected Financial Highlights

FOR THE YEARS ENDED DECEMBER 31,	2024	2023	2022
For the year			
Total Revenue	\$ 93,279,465	74,137,289	53,771,591
Net Income	10,055,392	10,018,682	12,093,501
Book Value Per Share	\$ 15.03	13.54	11.92
Per common share			
Basic Earnings Per Share	\$ 1.33	1.33	1.60
Diluted Earnings Per Share	1.31	1.32	1.58
Common Stock Closing Price	\$ 15.94	12.75	13.60
Financial ratios (%)			
Return on Average Assets	0.58	0.66	0.89
Return on Average Equity	9.28	10.44	13.40
Net Interest Margin	2.78	2.96	3.52
Efficiency Ratio	71.30	70.87	64.33
At December 31			
Total Assets	\$ 1,787,150,133	1,622,249,684	1,409,592,656
Total Loans	1,338,904,047	1,184,187,056	1,002,632,622
Allowance for Credit Loss	11,698,341	10,360,427	10,110,619
Deposits	1,460,653,573	1,294,096,537	1,216,761,844
Shareholders' Equity	113,769,010	102,953,920	90,538,473
Weighted Average Common Shares Outstanding - Basic	\$ 7,588,455	7,548,410	7,568,717



TO OUR SHAREHOLDERS,

I am pleased to report another successful year for our Company. Despite headwinds in the first six months due to interest rate pressures, our net income results for 2024 surpassed 2023 results, and we closed the year with strong momentum heading into 2025.

A tough interest rate environment and economic uncertainty made it a transitional year. We achieved substantial deposit growth in the first half of the year, which supported our significant loan growth in the fourth quarter. The Company is committed to a measured growth approach to maximize profitability, and our strategies in place began to pay off midyear, with second-half 2024 net income exceeding first-half 2024 net income by 34.8 percent.

We are very well capitalized and in a comfortable position going into 2025 to grow our capital base through earnings, ensuring that we can effectively navigate the challenges of the financial landscape.

2024 Financial Highlights

- Net income totaled \$10.1 million, or \$1.31 per diluted common share, for the year ended December 31, 2024, compared to \$10.0 million, or \$1.32 per diluted common share, for the year ended December 31, 2023.
- Total assets increased \$164.9 million to \$1.8 billion during the year ended December 31, 2024, an increase of 10.2 percent from December 31, 2023.
- Total loans grew 13.1 percent, during the year ended December 31, 2024, and outstanding loans grew by \$55.7 million during the fourth quarter of 2024.
- Total deposits increased \$166.6 million, or 12.9 percent, during the year ended December 31, 2024, primarily driven by organic growth of interest-bearing customer deposits.
- Noninterest income increased \$1.1 million, or

23.3 percent, compared to the year ended December 31, 2023.

- Tangible book value per share increased by \$1.51, or 11.8 percent, to \$14.30 per share at December 31, 2024, when compared to December 31, 2023.

We are pleased to declare a cash dividend again this year of \$0.10 per share of common stock paid in February 2025. This is our third consecutive cash dividend payout and marks our continued commitment to returning value to our shareholders.

Our credit quality is one of our greatest strengths and remains pristine, with a nonperforming assets/capital ratio of 0.00 percent at year-end. The Company continues to monitor credit quality closely in light of the economic uncertainty caused by, among other factors, the prolonged elevated interest rate environment and the lingering inflationary pressures.

We believe we are well positioned to navigate the uncertain interest rate forecast in 2025 as the Federal Open Market Committee of the Federal Reserve continues to balance its dual mandate of stable price levels and maximum employment.

Growth, deposits, and variable-rate loans all facilitated our success in 2024. Furthermore, we saw a welcome cost of funds decline in the fourth quarter, the first quarterly decrease since 2022. The decrease in cost of funds and repricing of our interest-bearing deposit accounts led to significant deposit cost savings, which improved our margin and helped our position and profitability.

Loan growth occurred across all markets, and it was a team effort across the board to create continued growth while facing the challenges of collecting and retaining deposits to fund quality loans in a high-interest-rate environment.

Operating in vibrant markets in some of the top MSAs in the country, we added a new office in the rapidly growing Carnes Crossroads area of Summerville, South Carolina, part of the greater Charleston MSA, in July. We opened our permanent Beaufort location in December after opening a temporary office there in 2022. Rapid economic development and population growth throughout our footprint create exciting prospects, and our new offices in Charleston and the Lowcountry bring further opportunities.

We continue to carefully examine our efficiency and expense ratios as we strive for profitable growth. We are making significant progress on lowering our efficiency ratio, which is particularly encouraging considering the construction costs of two new offices and expansion in 2024.

We are committed to seeking efficiencies within our current operations and are focused on leveraging the systems and talented employees we have. Despite adding new offices, we have successfully created efficiencies without increasing our headcount. By reorganizing roles and expanding responsibilities internally, we can reward our dedicated team while enhancing productivity. The compounding effect of continued efficiencies will position us well for the future, leading us to our desired return profile.

As always, our number one priority is protecting customer data and information. Given rampant fraud and cybersecurity risks, we continually pursue technology improvements to safeguard our systems and have ongoing cybersecurity training for our staff.

We also seek to positively impact our communities and support local activities and organizations that improve the lives of all residents. By making financial resources accessible to everyone, we enrich our entire community.

As we begin 2025, we are confident in our balance sheet and market position, enabling us to pursue strategic initiatives and support continued growth.

Our consistent growth stems from our commitment to our values and your ongoing support.

As we look ahead, I am very optimistic and enthusiastic about our bank's prospects. There are many opportunities for us. Thank you for your continued confidence and trust in our vision for the future.

“As we begin 2025, we are confident in our balance sheet and market position, enabling us to pursue strategic initiatives and support continued growth.”



K. Wayne Wicker

K. Wayne Wicker
Chairman of the Board,
Chief Executive Officer

Community

It's been an exciting journey over the past 17 years as we've grown alongside our customers and communities in some of the fastest-growing areas in the country. We're proud of our franchise along the South Carolina coast. Supporting the coastal economy and seeing customers' dreams realized is why we started the bank.

Our success and franchise growth stems from the strong foundation and reputation our employees, customers, and shareholders have helped us build. We've purposely kept our focus on the coastal markets because of the opportunities in the growing region and because it's our home. We are committed to supporting our neighbors and seeing our communities thrive.

We promise tailor-made banking services for our customers. We let customers know why they deserve more from their bank and what they can expect more of when they bank with us. We truly believe our level of service sets us apart, and we could not promote our "Expect More" philosophy without our employees bringing the message to life for our customers. As a testament to our level of service, Newsweek named us one of "America's Best Regional Banks and Credit Unions" for the second year in a row. The top 250 banks out of more than 9,000 are recognized based on profitability, financial relevance, risk exposure, and overall health and stability.

Our team is busy in our new markets establishing relationships and becoming a trusted financial partner. We are pleased with their progress in these diverse markets that offer new opportunities for us. The historic town of Beaufort has a strong base of healthcare and hospitality industries, along with three military installations and a growing range of new business startups. Our Carnes Crossroads office is our third location in the Charleston region and is strategically located near the state's largest manufacturers and booming residential neighborhoods.

The bank continues to make strides in market share throughout our franchise. Our Pawleys Island and Murrells Inlet offices rank number one in their markets. This is even more impressive considering the increased competition from large national and regional banks. Our South Coast offices are also making progress, which speaks well to our strategic expansion plans.

“As the coastal region continues to grow, we remain dedicated to fostering economic development across our markets and ensuring that our financial services align with the needs of our evolving communities.”

We are currently enhancing our business banking products and services, which includes updating our online banking software for business customers, adding new process automation software, and offering a lockbox service. These improvements are designed to drive efficiency and improve the experience for both our customers and employees. Additionally, we have transitioned our server infrastructure to bolster our technological capabilities and overall efficiency.

Business continuity plans are in place to remain resilient during a crisis and safeguard our operations during events such as natural disasters, cybersecurity incidents, or system failures. We conduct regular risk assessments to identify potential threats to our operations and have recovery strategies to minimize disruptions.

In today's digital age, protecting our clients' financial information from fraud is paramount. We have implemented robust security measures and regular cybersecurity training for our staff to help safeguard against risks. Our cybersecurity measures include increased training and awareness, multifactor authentication, verification protocols, regular audits and monitoring, crisis management, and incident response plans.

Ongoing training helps ensure employees remain vigilant in protecting sensitive bank information and helps them educate our customers about fraud. We raise customer awareness of current scams and promote proactive measures for them to protect their finances against fraud.

Our employees' dedication to our mission and values is critical to our success. We are proud of our team and continue to invest in our employees. We have implemented a new compensation plan that includes market and merit adjustments for all employees as part of our strategy to retain and attract the best talent in our competitive markets. This aligns with our culture of growth and improvement.

We are committed to promoting from within, and our growth gives employees the opportunity to advance their careers. Our team's commitment directly impacts our performance. As our employees are promoted and thrive in new positions, so does our company.

Our accounting, compliance, and internal audit departments have been restructured as we approach \$2 billion in assets. Team members have taken on new roles and responsibilities to handle

additional regulatory and reporting requirements. Our deposit operations department has also been restructured to better align with the increase in digital banking services.

As part of our support of financial inclusion, we have introduced a certified Bank On account. Our new Performance Checking account meets more than 25 criteria for safe and affordable consumer accounts and provides our communities with access to basic banking services.

We also support our communities through participation in affordable mortgage lending and financial education programs. We partner with local organizations to conduct workshops on financial literacy, budgeting skills, and credit management.

We are proud to be actively involved in local events, sponsorships, and charity drives that benefit our community, ensuring that we contribute not just to the economy, but also to the overall well-being of those around us. Our team is dedicated to making a difference by improving lives, empowering our neighbors, and strengthening the community.



Retail Business Development Officer Jim Damico partnered with his Hilton Head Island-Bluffton Chamber of Commerce 2025 Leadership Class to collect donations for the Bluffton Self Help organization.



Members of our Grand Strand team volunteered at the Horry County Schools Technology Fair in Myrtle Beach.



Locations

- 1 North Myrtle Beach
1801 Highway 17 South
- 2 Myrtle Beach (Headquarters)
630 29th Avenue North
- 3 Towne Centre
3990 River Oaks Drive
- 4 Murrells Inlet
11019 Tournament Blvd.
- 5 Pawleys Island
10970 Ocean Highway
- 6 Georgetown
1187 North Fraser Street
- 7 Mount Pleasant
930 Johnnie Dodds Blvd.
- 8 Charleston
40 Calhoun Street
- 9 Bluffton
1 Sheridan Park Circle
- 10 Hilton Head Island
81 Main Street
- 11 Beaufort
37 Robert Smalls Parkway
- 12 Summerville
2444 North Main Street

Leadership

CORPORATE OFFICERS AND REGIONAL EXECUTIVES

Karen Atwood-Lowrance
Senior Vice President
Director of Construction and
Commercial Loan Support

Candace L. Cherry
Senior Vice President
Corporate Liaison

Michelle A. Coletta
Senior Vice President
Director of Retail Banking

Anne B. Cote
Senior Vice President
Director of Loan Operations

Tiffany Crawford
Senior Vice President
Retail Banking Leader

Robert N. Crowe
Senior Vice President
Mortgage Loan Officer

Melissa K. Downs-High
Senior Vice President
Director of Risk Management

Charles W. Fisher, III
Senior Vice President
Commercial Relationship
Manager

Carrie S. Harris
Senior Vice President
Director of Human Resources

Peter M. Insabella
Senior Vice President
Director of Mortgage Banking

Drew S. Johnson
Senior Vice President
Waccamaw Neck Market
Executive

Christian D. Kata
Senior Vice President
Beaufort Market Executive

Molly Keen
Senior Vice President
Towne Centre Market Executive

Donald G. Kyzer
Senior Vice President
Director of Corporate Services

Walter N. Lawson, III
Senior Vice President
Commercial Relationship
Manager

Danielle Martin-Ebert
Senior Vice President
Director of Mortgage Operations

Marcus G. McDowell
Senior Vice President
North Myrtle Beach
Market Executive

Mark C. Mercuri
Senior Vice President
Commercial Relationship
Manager

Bryan K. Newton
Senior Vice President
Commercial Relationship
Manager

Adam M. Paskanik
Senior Vice President
Mortgage Loan Officer

Paul E. Peeples
Senior Vice President
Myrtle Beach Market Executive

Jennifer L. Peters
Senior Vice President
Director of Internal Audit

Derick R. Powers
Senior Vice President
Credit Risk Officer

John W. Rowe, III
Senior Vice President
Murrells Inlet Market Executive

Allison P. Stout
Senior Vice President
Director of Accounting and
Finance

Alan Uram
Senior Vice President
Charleston Market Executive

Michelle A. Ward
Senior Vice President
Director of Deposit Operations

Kimberly D. West
Senior Vice President
Information Security Officer

Leadership

DIRECTORS — SOUTH ATLANTIC BANCSHARES, INC., AND SOUTH ATLANTIC BANK

James Carson Benton, Jr.
Co-Owner and Operator
C.L. Benton and Sons, Inc.

Miles M. Herring
Commercial Real Estate
Management and Development

Albert A. Springs, IV
Co-Owner and President
H.B. Springs Company

K. Wayne Wicker
Chairman of the Board,
Chief Executive Officer
South Atlantic Bank

Thomas C. Brittain
Attorney at Law
Brittain Law Firm, P.A.

Martha S. Lewis
Physical Therapist

Jack L. Springs, Jr.
Co-Owner/Broker
Century 21 Barefoot Realty

Edgar L. Woods
President/Owner
Palmetto Grain Brokerage, LLC
President
Performance AG, LLC

Tony K. Cox
Retired
Burroughs and Chapin Company

R. Scott Plyler
President
South Atlantic Bank

Michael C. Tawes, Sr.
Partner
Valbridge Property Advisors

EXECUTIVE OFFICERS

K. Wayne Wicker
Chairman of the Board,
Chief Executive Officer

Matthew H. Hobert
Executive Vice President
Chief Financial Officer

Travis A. Minter
Executive Vice President
Chief Operating Officer

Mary Jo Rogers
Executive Vice President
Chief Lending Officer

R. Scott Plyler
President

Lenwood B. Howell
Executive Vice President
South Coast Regional Executive

Kenneth M. Pickens
Executive Vice President
Credit Risk Officer

Daniel F. Siau
Executive Vice President
North Coast Regional Executive

C. Alec Elmore
Executive Vice President
Chief Credit Officer

STOCK INFORMATION

The common stock of South Atlantic Bancshares, Inc., is listed on the OTCQX® Best Market under the symbol SABK. To find current financial disclosures and real-time level 2 quotes for South Atlantic Bancshares, Inc., visit www.otcmarkets.com and enter the symbol SABK.

ANNUAL MEETING

The Annual Meeting of Shareholders of South Atlantic Bancshares, Inc., will take place on Thursday, April 24, 2025, at 5:30 p.m. at the Bank's office at:

3990 River Oaks Drive
Myrtle Beach, SC 29579

REGISTRAR AND TRANSFER AGENT

Broadridge Shareholder Services
P.O. Box 1342
Brentwood, NY 11717-0718
shareholder@broadridge.com
303.562.9275 or 888.789.8606

CORPORATE COUNSEL

Hunton Andrews Kurth LLP
2200 Pennsylvania Avenue NW
Washington, DC 20037

INDEPENDENT ACCOUNTANTS

Elliott Davis LLC
2151 Pickens Street, Suite 200
Columbia, SC 29201

South Atlantic Bancshares, Inc.

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Myrtle Beach, SC 29577

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains, among other things, certain statements about future events that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements regarding the effects of the ongoing COVID-19 pandemic, statements with references to a future period or statements preceded by, followed by, or that include the words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “project,” “outlook,” or similar terms or expressions. These statements are based upon the current beliefs and expectations of the Company's management team and are subject to significant risks and uncertainties that are subject to change based on various factors (many of which are beyond the Company's control). These risks, uncertainties, and other factors may cause the actual results, performance, and achievements of the Company to be materially different from the anticipated future results, performance, or achievements expressed in, or implied by, the forward-looking statements. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of those assumptions could prove to be inaccurate. Therefore, the Company can give no assurance that the results contemplated in the forward-looking statements will be realized. The inclusion of this forward-looking information should not be construed as a representation by the Company or any person that the future events, plans, or expectations contemplated by the Company will be achieved, and readers are cautioned not to place undue reliance on the forward-looking statements contained in this document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above. Any forward-looking statements contained in this document are made as of the date hereof, and the Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made, except as required by law.

*South Atlantic Bancshares, Inc.
and Subsidiary*



Report on Consolidated Financial Statements

As of and for the years ended December 31, 2024 and 2023

South Atlantic Bancshares, Inc. and Subsidiary

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South Atlantic Bancshares, Inc. and Subsidiary

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Independent Auditor's Report

Board of Directors
South Atlantic Bancshares, Inc.

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying 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 criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 10, 2025 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of 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 Financial Statements

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

In preparing the 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 within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the 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.

Other Information

Management is responsible for the other information included in the Annual Report. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in cursive script that reads "Elliott Davis, LLC".

Charleston, South Carolina
March 10, 2025

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South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2024 and 2023

	2024	2023
Assets:		
Cash and cash equivalents:		
Cash and due from banks	\$ 60,640,379	\$ 16,391,819
Federal funds sold and interest-bearing deposits	729,199	20,807,745
Total cash and cash equivalents	<u>61,369,578</u>	<u>37,199,564</u>
Investment securities:		
Securities available-for-sale	199,840,894	219,364,411
Securities held-to-maturity (Fair Value of \$74,145,749 and \$75,941,761 at December 31, 2024 and December 31, 2023, respectively)	93,846,171	94,315,965
Nonmarketable equity securities	5,904,800	5,772,400
Total investment securities	<u>299,591,865</u>	<u>319,452,776</u>
Mortgage loans held-for-sale	1,176,440	949,389
Loans receivable	1,338,904,047	1,184,187,056
Less allowance for credit losses	<u>11,698,341</u>	<u>10,360,427</u>
Loans, net	<u>1,327,205,706</u>	<u>1,173,826,629</u>
Premises, furniture and equipment, net	27,902,894	22,289,725
Right of use operating lease asset	8,573,256	8,041,100
Bank-owned life insurance	35,403,071	34,345,112
Accrued interest receivable	6,702,560	6,329,248
Deferred tax assets	10,894,494	11,162,836
Goodwill	5,348,699	5,348,699
Core deposit intangible	175,124	297,710
Other assets	2,806,446	3,006,896
Total assets	<u>\$ 1,787,150,133</u>	<u>\$ 1,622,249,684</u>
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	\$ 315,068,667	\$ 331,932,720
Interest-bearing transaction accounts	123,398,210	121,515,099
Savings and money market accounts	799,085,481	700,208,139
Time deposits \$250,000 and over	86,737,843	63,085,839
Other time deposits	<u>136,363,372</u>	<u>77,354,740</u>
Total deposits	<u>1,460,653,573</u>	<u>1,294,096,537</u>
Lease liability	9,057,437	8,460,312
Subordinated debentures	30,000,000	30,000,000
Federal Home Loan Bank advances	100,000,000	100,000,000
Federal Reserve Bank advances	60,000,000	75,000,000
Accrued interest payable	3,541,558	478,012
Other liabilities	<u>10,128,555</u>	<u>11,260,903</u>
Total liabilities	<u>1,673,381,123</u>	<u>1,519,295,764</u>
Commitments and contingencies (Notes 16, 19 and 21)		
Shareholders' equity:		
Preferred stock, \$1.00 par value per share, 5,000,000 shares authorized; no shares outstanding	-	-
Common stock, \$1.00 par value, 25,000,000 shares authorized: 7,571,823 and 7,605,854 shares issued and outstanding at December 31, 2024 and 2023, respectively	7,571,823	7,605,854
Capital surplus	71,495,150	71,692,097
Retained earnings	58,008,905	48,710,873
Accumulated other comprehensive loss	(22,984,890)	(24,734,952)
Treasury stock 20,374 and 20,857 shares at December 31, 2024 and 2023, respectively	<u>(321,978)</u>	<u>(319,952)</u>
Total shareholders' equity	<u>113,769,010</u>	<u>102,953,920</u>
Total liabilities and shareholders' equity	<u>\$ 1,787,150,133</u>	<u>\$ 1,622,249,684</u>

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2024 and 2023

	2024	2023
Interest income:		
Loans, including fees	\$ 72,369,488	\$ 58,758,062
Securities available-for-sale	7,490,824	7,832,294
Securities held-to-maturity	1,984,285	2,024,579
Other interest income	5,347,728	584,018
Total	<u>87,192,325</u>	<u>69,198,953</u>
Interest expense:		
Deposits	34,059,389	20,824,654
Other borrowings	9,000,606	5,878,869
Total	<u>43,059,995</u>	<u>26,703,523</u>
Net interest income	<u>44,132,330</u>	<u>42,495,430</u>
Provision for credit losses	1,432,000	755,000
Net interest income after provision for credit losses	<u>42,700,330</u>	<u>41,740,430</u>
Noninterest income:		
Mortgage origination income	1,348,193	748,214
Debit card income	1,602,992	1,556,056
Merchant fee income	728,531	670,807
Service charges on deposit accounts	367,703	567,724
Net gain on sale of investment securities available-for-sale	-	3,423
Bank-owned life insurance income	1,057,959	820,770
Other income	981,762	571,342
Total noninterest income	<u>6,087,140</u>	<u>4,938,336</u>
Noninterest expense:		
Salaries and employee benefits	21,003,749	19,618,772
Net occupancy	3,761,722	2,946,154
Furniture and equipment	878,406	881,231
FDIC banking assessments	1,325,000	1,060,000
Advertising	1,565,322	1,331,571
Data processing fees	1,676,322	1,695,237
Software maintenance	1,388,713	878,993
Other operating expense	4,205,935	5,517,645
Total noninterest expense	<u>35,805,169</u>	<u>33,929,603</u>
Income before income taxes	<u>12,982,301</u>	<u>12,749,163</u>
Income taxes	2,926,909	2,730,481
Net income	<u>\$ 10,055,392</u>	<u>\$ 10,018,682</u>
Income per common share		
Basic income per common share	<u>\$ 1.33</u>	<u>\$ 1.33</u>
Average common shares outstanding - basic	<u>7,588,455</u>	<u>7,548,410</u>
Diluted income per common share	<u>\$ 1.31</u>	<u>\$ 1.32</u>
Average common shares outstanding - diluted	<u>7,661,540</u>	<u>7,606,312</u>

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Net income	\$ 10,055,392	\$ 10,018,682
Other comprehensive income:		
Unrealized gains arising during the period on securities available-for-sale	1,489,221	5,115,925
Gain on sale of securities available-for-sale	-	(3,423)
Reclassification adjustment for amortization of unrealized losses on securities available-for-sale transferred to held-to-maturity	58,901	16,697
Net unrealized gains on securities	<u>1,548,122</u>	<u>5,129,199</u>
Unrealized gains (losses) arising during the period on cash flow hedges	1,514,413	(524,656)
Reclassification adjustments to interest expense	(734,328)	(534,786)
Net unrealized gains (losses) on cash flow hedges	<u>780,085</u>	<u>(1,059,442)</u>
Net effect of taxes	(578,145)	(989,498)
Other comprehensive gain	<u>1,750,062</u>	<u>3,080,259</u>
Comprehensive income	<u><u>11,805,454</u></u>	<u><u>13,098,941</u></u>

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2024 and 2023

	Common Stock		Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
	Shares	Amount					
Balance, December 31, 2022	7,596,198	7,596,198	71,581,401	39,445,798	(27,815,211)	(269,713)	90,538,473
Net income	-	-	-	10,018,682	-	-	10,018,682
Other comprehensive income, net of tax expense of \$989,498	-	-	-	-	3,080,259	-	3,080,259
Payment of dividends	-	-	-	(753,607)	-	-	(753,607)
Proceeds from exercise of stock options	9,656	9,656	75,126	-	-	-	84,782
Purchase of treasury stock	-	-	-	-	-	(510,439)	(510,439)
Stock and warrant compensation expense	-	-	158,270	-	-	-	158,270
Contribution of treasury stock to KSOP plan	-	-	(122,700)	-	-	460,200	337,500
Balance, December 31, 2023	7,605,854	\$ 7,605,854	\$ 71,692,097	\$ 48,710,873	\$ (24,734,952)	\$ (319,952)	\$ 102,953,920
Net income	-	-	-	10,055,392	-	-	10,055,392
Other comprehensive income, net of tax expense of \$780,085	-	-	-	-	1,750,062	-	1,750,062
Payment of dividends	-	-	-	(757,360)	-	-	(757,360)
Proceeds from exercise of stock options	969	969	9,990	-	-	-	10,959
Retirement of common stock	(35,000)	(35,000)	-	-	-	423,750	388,750
Purchase of treasury stock	-	-	-	-	-	(425,776)	(425,776)
Stock and warrant compensation expense	-	-	193,063	-	-	-	193,063
Contribution of treasury stock to KSOP plan	-	-	(400,000)	-	-	-	(400,000)
Balance, December 31, 2024	<u>7,571,823</u>	<u>\$ 7,571,823</u>	<u>\$ 71,495,150</u>	<u>\$ 58,008,905</u>	<u>\$ (22,984,890)</u>	<u>\$ (321,978)</u>	<u>\$ 113,769,010</u>

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Net income	\$ 10,055,392	\$ 10,018,682
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,432,000	755,000
Depreciation expense	1,082,435	2,158,583
Discount accretion and premium amortization on investment securities	656,851	1,250,553
Amortization of core deposit intangibles	122,586	154,918
Stock and warrant compensation expense	193,063	158,270
Net gain on sale of AFS securities	-	(3,423)
Contribution of treasury stock to KSOP plan	-	337,500
Deferred income tax expense (benefit)	(309,805)	167,062
Accretion on acquired loans	-	(220,491)
Accretion of deferred loan costs and fees, net	(536,108)	(1,195,468)
Origination of loans held-for-sale	(56,070,148)	(25,656,659)
Proceeds from sale of loans held-for-sale	57,191,290	26,132,190
Net gain on sale of loans	(1,348,193)	(748,214)
Increase in cash surrender value of bank-owned life insurance	(1,057,959)	(820,770)
Increase in accrued interest receivable	(373,312)	(1,430,525)
Increase in accrued interest payable	3,063,546	330,050
Net (increase) decrease in other assets and right of use operating lease asset	465,324	(4,855,255)
Net increase in other liabilities and operating lease liability	(563,416)	3,576,838
Net cash provided by operating activities	<u>14,003,546</u>	<u>10,108,841</u>
Investing activities:		
Purchase of securities available-for-sale	(8,188,759)	-
Proceeds from sales of securities available-for-sale	-	4,263,820
Net proceeds from maturities, calls, pay-ups, and paydowns of securities available-for-sale	29,073,341	6,811,486
Purchases of nonmarketable equity securities	(132,400)	(5,120,500)
Net increase in loans to customers	(154,274,969)	(181,554,434)
Net purchases of premises, furniture, and equipment	(6,695,604)	(4,316,329)
Purchase of bank-owned life insurance	-	(4,000,000)
Net cash used in investing activities:	<u>(140,218,391)</u>	<u>(183,915,957)</u>
Financing activities:		
Decrease in noninterest-bearing deposits	(16,864,053)	(39,479,235)
Increase in interest-bearing deposits	183,421,089	116,813,928
Net increase in Federal Reserve advances	(15,000,000)	19,000,000
Net increase in Federal Home Loan Bank advances	-	100,000,000
Proceeds from exercise of stock options	10,959	84,782
Purchase of treasury stock	(425,776)	(510,439)
Payment of dividends	(757,360)	(753,607)
Net cash provided by financing activities:	<u>150,384,859</u>	<u>195,155,429</u>
Net (decrease) increase in cash and cash equivalents	24,170,014	21,348,313
Cash and cash equivalents, beginning of year	37,199,564	15,851,251
Cash and cash equivalents, end of year	<u>\$ 61,369,578</u>	<u>\$ 37,199,564</u>

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2024 and 2023

Cash paid during the year for:

Interest	\$ 39,996,449	\$ 23,639,977
Income taxes	2,529,900	3,911,000
Noncash investing and financing activities		
Unrealized gain on securities available-for-sale	1,119,396	3,872,104
Unrealized gain (loss) on cash flow hedges	1,138,384	(397,112)
Lease liabilities arising from obtaining right of use assets	797,030	-

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies

Organization:

South Atlantic Bancshares, Inc. was incorporated to serve as a bank holding company for its subsidiary, South Atlantic Bank (the “Bank”, together referred to as the “Company”). The Bank commenced business on November 28, 2007. The principal business activity of the Bank is to provide banking services to domestic markets, principally in Horry, Georgetown, Charleston, and Beaufort counties, South Carolina. The Bank is a state-chartered commercial bank, and its deposits are insured by the Federal Deposit Insurance Corporation. The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions. The Company operates as one business segment.

Management's estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the statements of income for the periods covered. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses, including valuation allowances for individually evaluated loans, business combination accounting, including valuation of goodwill and core deposit intangibles, the valuation of investment securities, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination allowances for credit losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on forecasted changes in macroeconomic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowances for credit losses on loans. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for credit losses may change materially in the near term.

Concentrations of credit risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in Horry, Georgetown, Charleston, and Beaufort counties in South Carolina. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Concentrations of credit risk (continued):

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. However, to offset this risk, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully amortized (i.e. balloon payment loans usually five to seven years). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations and general obligation municipals. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Cash and cash equivalents:

Cash and cash equivalents consist of cash and due from banks and interest-bearing cash with banks. Cash and cash equivalents have maturities of three months or less. Accordingly, the carrying amount of such instruments is considered a reasonable estimate of fair value. The Company is not subject to any cash reserve balances.

Securities available-for-sale:

Securities available-for-sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains and losses in a valuation account. Aggregate market valuation adjustments are recorded in shareholders' equity net of deferred income taxes. Unrealized losses on securities due to credit loss factors are recognized when it is determined that present value of cash flows expected to be collected is less than the amortized cost basis of the securities.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sale are recorded on the trade date and determined using the specific identification method.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Securities available-for-sale (continued):

For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income. Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024 and 2023, there was no allowance for credit loss related to the available-for-sale portfolio. Accrued interest receivable on available-for-sale debt securities totaled approximately \$1.6 million and \$1.6 million at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

Securities held-to-maturity:

Securities held-to-maturity are carried at amortized cost adjusted for the amortization of premiums and the accretion of discounts. In order to qualify as held-to-maturity, the Company must have the ability and intent to hold the securities to maturity. Security transfers to the held-to-maturity classification are recorded at fair value as of the date of transfer, which becomes the new cost basis for the securities held-to-maturity. Unrealized gains or losses from the transfer of available-for-sale securities continue to be reported in cumulative other comprehensive income and are amortized into earnings over the remaining life of the security.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled \$209,415 and \$237,807 at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses. The estimate of expected credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. The state and local governments securities held by the Company are highly rated by major rating agencies, all bonds are investment grade, and no issuers are past due on payments. As a result, no allowance for credit losses was recorded on held-to-maturity at December 31, 2024 and 2023.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Nonmarketable equity securities:

Nonmarketable equity securities include the cost of the Company's investment in the stock of the Federal Home Loan Bank, investment in TIB stock and investment in Wachesaw stock. The FHLB stock has no quoted market value and no ready market exists. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank. At December 31, 2024 and 2023, the investment in Federal Home Loan Bank stock was \$5,882,300 and \$5,734,900, respectively. Dividends received on the stock are included in interest income.

The investment in TIB stock was \$22,500 at December 31, 2024 and 2023. The investment in Wachesaw stock was \$15,000 at December 31, 2024 and 2023.

Mortgage loans held-for-sale:

The Bank's mortgage activities are comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgages, and selling mortgages to investors under pre-existing commitments. The commitments to originate fixed rate mortgage loans and the commitments to sell these loans to a third party are both derivative contracts. The fair value of these derivative contracts is immaterial and has no effect on the recorded amounts in the financial statements. Funded residential mortgages held temporarily for sale to investors are recorded at the lower of cost or estimated market value. Application and origination fees collected by the Bank are recognized as income upon sale to the investor.

Loans receivable:

Loans are stated at their unpaid principal balance adjusted for any unamortized deferred fees and costs. Interest income is accrued on the unpaid principal balance using the simple interest method and is recorded in the period earned.

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed.

Loan origination and commitment fees and certain direct loan origination costs (principally salaries and employee benefits) are deferred and amortized to income over the contractual life of the related loans or commitments, adjusted for prepayments, using a method that approximates a level yield.

The Company identifies substandard loans through its normal internal loan review process. Loans on the Company's problem loan watch list are considered potentially substandard loans. These loans are evaluated in determining whether the borrower will be able to perform in accordance with the loan agreement. Loans are not considered substandard if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Loans receivable (continued):

In future acquisitions, the Company may purchase loans, some of which have experienced more than insignificant credit deterioration since origination. In those cases, the Company will consider internal loan grades, delinquency status and other relevant factors in assessing whether purchased loans are purchase credit deteriorated (“PCD”). PCD loans are recorded at the amount paid. An initial allowance for credit loss is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial allowance for credit loss determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit loss becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the allowance for credit loss recorded through provision expense.

Accounting Standards Adopted in 2023:

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included a decrease in the allowance for credit losses on loans of \$502.6 thousand, which is presented as a reduction to net loans outstanding, and an increase in the liability for unfunded commitments of \$502.6 thousand, which was recorded within other liabilities. The Company did not record an adjustment to retained earnings as of January 1, 2023, for the cumulative effect of adopting CECL, due to the negligible difference in the reserve calculation as a result of the transition from the allowance for loan losses to CECL.

The Company adopted ASC 326 using the prospective transition approach for PCD assets that were previously classified as purchased credit impaired (“PCI”) under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. The remaining interest related discount of approximately \$212.4 thousand was accreted into interest income at the effective interest rate as of January 1, 2023, and recorded reserves were allocated to purchased loans on a pooled basis within the allowance for credit losses. As a result, the Company did not have any PCD assets as of January 1, 2023.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Accounting Standards Adopted in 2023 (continued):

Regarding PCD assets, the Company elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account, contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Allowance for Credit Losses – Held-to-Maturity Securities:

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. The state and local governments securities held by the Company are highly rated by major rating agencies, all bonds are investment grade, and no issuers are past due on payments.

Allowance for Credit Losses – Available-for-Sale Securities:

For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors.

In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income. Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Allowance for Credit Losses – Loans:

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable related to loans totaled \$4.8 and \$4.2 million at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist.

The Company has elected a non-discounted cash flow methodology with probability of default ("PD") and loss given default ("LGD") for all call report code cohorts ("cohorts"). The PD calculation looks at the historical loan portfolio at particular points in time (each month during the lookback period) to determine the probability that loans in a certain cohort will default. A default is defined as a loan that has moved to past due 90 days and greater, non-accrual status, or experienced a charge-off during the period. Currently, the Company's historical data is insufficient due to a minimal amount of default activity or zero defaults, therefore, management uses index PDs comprised of rates derived from the PD experience of other community banks in place of the Company's historical PDs.

The LGD calculation looks at actual losses (net charge-offs) experienced over the entire lookback period for each cohort of loans. The aggregate loss amount is divided by the exposure at default to determine an LGD rate. All defaults (non-accrual, charge-off, or greater than 90 days past due) occurring during the lookback period are included in the denominator, whether a loss occurred or not and exposure at default is determined by the loan balance immediately preceding the default event (i.e. non-accrual or charge-off). Due to very limited charge-off history, management uses index LGDs comprised of rates derived from the LGD experience of other community banks in place of the Company's historical LGDs.

The Company utilizes reasonable and supportable forecasts of future economic conditions when estimating the allowance for credit losses on loans. The calculation includes a 12-month PD forecast based on the peer index regression model comparing peer defaults to the national unemployment rate. After the forecast period, PD rates revert on a straight-line basis back to long-term historical average rates over a 12-month period.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Allowance for Credit Losses – Loans (continued):

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for changes to lending policies and procedures, changes in economic and business conditions, experience and depth of management and staff, changes in value of underlying collateral, changes in concentrations of credit, and other external factors, including regulatory, legal, and competitive environments.

Loans that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting dated unadjusted for selling costs as appropriate.

Allowance for Credit Losses – Unfunded Commitments:

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's consolidated balance sheets.

Goodwill and core deposit intangible:

In connection with business combinations, the Company records core deposit intangibles, representing the value of the acquired core deposit base. Core deposit intangibles are amortized over their estimated useful lives ranging up to 10 years.

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. The Company reviews the carrying value of goodwill on an annual basis and on an interim basis if certain events or circumstances indicate that an impairment loss may have been incurred. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds the implied fair value. The annual valuation is performed on December 31 of each year.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Premises and equipment:

Premises, furniture and equipment are stated at cost, less accumulated depreciation. Depreciation expense is computed by the straight-line method, based on the estimated useful lives for buildings and improvements of 40 years, for furniture and equipment of five to 10 years and for software of three years. Leasehold improvements are amortized over the life of each respective lease. The cost of assets sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the income statement when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized.

Right of use operating lease assets and liabilities:

The Company determines if a lease is present at the inception of an agreement. Operating leases are capitalized at commencement and are discounted using the Company's FHLB borrowing rate for a similar term borrowing unless the lease defines an implicit rate within the contract. Leases with original terms of less than 12 months are not capitalized.

Right of use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right of use assets and operating lease liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent future rental expenses associated with operating leases and the borrowing rates are based on publicly available interest rates.

The lease term frequently includes options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis and adjustments are made to the right of use asset and lease liability if the Company is reasonably certain that an option will be exercised and will be expensed on a straight-line basis. Right of use assets and lease liabilities arising from operating leases are included within right of use operating lease asset and lease liability, respectively, on the consolidated balance sheets.

Other real estate owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for credit losses. After foreclosure, valuations are periodically performed by management with the property carried at the lower of cost or fair value less estimated costs of disposal. Revenue and expense from the operations of foreclosed assets and changes in the valuation allowances are included in net expenses from foreclosed assets in other operating expenses.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Federal Reserve Discount Window Advances:

The Company has established a line of credit with the Federal Reserve Bank's Discount Window by pledging securities as described within Note 8. As of December 31, 2024, the balance available for borrowing was \$79.7 million with no outstanding balances. As of December 31, 2023, the balance available for borrowing was \$106.7 million with no outstanding balances.

Federal Reserve Bank Term Funding Program:

In 2023, the Company established a line of credit with the Federal Reserve Bank's Bank Term Funding Program by pledging securities as described within Note 8. As of December 31, 2024, the balance available for borrowing was \$61.6 million, with outstanding advances of \$60.0 million. As of December 31, 2023, the balance available for borrowing was \$95.8 million, with outstanding advances of \$75.0 million.

Income taxes:

The Company accounts for income taxes in accordance with ASC 740, Income Taxes. Under ASC 740, deferred tax assets or liabilities are computed based upon the difference between financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. The Company provides a valuation allowance on its net deferred tax assets where it is more likely than not such assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. See Note 12 Income Taxes for additional information. The Company records any penalties and interest attributed to uncertain tax positions as a component of income tax expense.

Advertising expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Income per share:

Basic income per share represents income available to shareholders divided by the weighted-average number of common shares outstanding during the period. Dilutive income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. The only potential common share equivalents are those related to stock options and warrants. Stock options and warrants which are anti-dilutive are excluded from the calculation of diluted net income per share. The dilutive effect of options and warrants outstanding under the Company's stock compensation plan is reflected in diluted earnings per share by the application of the treasury stock method. Retroactive recognition has been given for the effects of all stock dividends.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Stock-based compensation:

The Company accounts for stock options and warrants under the fair value recognition provisions of FASB ASC 718, Stock Based Compensation. Compensation expense is recognized as salaries and benefits in the consolidated statements of income.

Revenue recognition:

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Service charges on deposit accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit card income: The Company earns interchange fees from debit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, with the transaction processing services provided to the cardholder. Fees are recognized on a daily basis.

Merchant fee income: The Company earns fee revenue for credit card processing services. The Company provides these services to merchant businesses and earns fee revenue as the merchant's customers make purchases.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Statement of cash flows:

For purposes of reporting cash flows in the financial statements, the Company considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, federal funds sold, and interest-bearing deposits. Generally, federal funds are sold for one-day periods.

Changes in the valuation account of securities available-for-sale, including the deferred tax effects, are considered non-cash transactions for purposes of the statement of cash flows and are presented in detail in the notes to the consolidated financial statements.

Comprehensive income:

The Company reports comprehensive income in accordance with ASC 220, "Comprehensive Income." The standard requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other consolidated financial statements. The disclosure requirements have been included in the Company's consolidated statements of comprehensive income.

Off-balance-sheet financial instruments:

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Derivative financial instruments:

The Company is exposed to certain risks relating to its ongoing business operations and uses interest rate derivatives as part of its asset-liability management strategy to help manage its interest rate risk position. The Company records all derivative assets and liabilities on the consolidated balance sheets 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 in accordance with ASC 815, Derivatives and Hedging. The Company currently has derivatives that are designated as qualifying hedging relationships. There are no other derivatives that are not designated as qualifying hedging relationships.

Changes in fair value of the Company's cash flow hedges are recognized in AOCI and reclassified to earnings in the period during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item. For fair value hedges, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item are recognized in current earnings as fair value changes. The change in fair value of the hedged item is recorded as a basis adjustment to the hedged assets or liabilities.

Reclassifications:

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on the previously reported results of operations or shareholders' equity.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Segment Reporting

The Company adopted Accounting Standards Update 2023-07 “Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures” on January 1, 2024. The Company has determined that all of its banking divisions and subsidiaries meet the aggregation criteria of ASC 280, Segment Reporting, as its current operating model is structured whereby banking divisions and subsidiaries serve a similar base of primarily commercial clients utilizing a company-wide offering of similar products and services managed through similar processes and platforms that are collectively reviewed by the Company’s Chief Executive Officer, who has been identified as the chief operating decision maker (“CODM”).

The CODM regularly assesses performance of the aggregated single operating and reporting segment and decides how to allocate resources based on net income calculated on the same basis as is net income reported in the Company’s consolidated statements of income and other comprehensive income. The CODM is also regularly provided with expense information at a level consistent with that disclosed in the Company’s consolidated statements of income and other comprehensive income.

Recently issued accounting pronouncements:

The following ASUs have been issued by FASB and may impact the Company's financial statements in future reporting periods.

In September 2023, the FASB issued guidance for public business entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate (the rate reconciliation) for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. For public business entities, the amendments are effective for annual periods beginning after December 15, 2024. The amendments should be applied on a prospective basis. Retrospective application is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2024, the FASB issued guidance for public business entities regarding disclosures of certain costs and expenses. This standard requires disclosure of specified information about certain costs and expenses, including employee compensation, depreciation, intangible asset amortization, depreciation, and selling expenses. For public business entities, the amendments are effective for annual periods beginning after December 15, 2026. Early adoption is permitted. The Company is evaluating what impact this new standard will have on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Risks and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

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

Note 2. Core Deposit Intangibles

In connection with prior business combinations, the Company recorded core deposit intangibles, representing the value of the acquired core deposit base. As of December 31, 2024 and 2023, respectively, core deposit intangible was \$175,124 and \$297,710. The estimated future amortization is subject to change to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful life of the core deposit intangibles.

Amortization expense for core deposit intangible is expected to be as follows.

2025	\$	90,256
2026		57,926
2027		25,595
2028		<u>1,347</u>
Total	\$	<u>175,124</u>

Amortization expense of \$122,586 and \$154,918 related to the core deposit intangible was recognized for the years ended December 31, 2024 and 2023, respectively.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 3. Investment Securities – Available-For-Sale

The amortized cost and estimated fair values of securities available-for-sale were:

	December 31, 2024			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government sponsored agencies	1,828,641	-	256,124	1,572,517
SBA loan pools	441,181	-	40,829	400,352
Tax exempt municipal securities	10,730,953	40,501	842,467	9,928,987
Taxable municipal securities	75,149,393	-	12,675,700	62,473,693
Mortgage-backed securities	118,144,630	-	12,803,057	105,341,573
Corporate securities	23,112,650	34,774	3,023,652	20,123,772
	<u>\$ 229,407,448</u>	<u>\$ 75,275</u>	<u>\$ 29,641,829</u>	<u>\$ 199,840,894</u>

	December 31, 2023			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasuries	\$ 14,994,028	\$ -	\$ 69,032	\$ 14,924,996
U.S. Government sponsored agencies	1,795,385	-	263,082	1,532,303
SBA loan pools	462,583	-	38,146	424,437
Tax exempt municipal securities	10,587,827	111,406	647,854	10,051,379
Taxable municipal securities	77,153,988	21	13,259,156	63,894,853
Mortgage-backed securities	119,269,179	-	13,783,027	105,486,152
Corporate securities	26,157,196	20,469	3,127,374	23,050,291
	<u>\$ 250,420,186</u>	<u>\$ 131,896</u>	<u>\$ 31,187,671</u>	<u>\$ 219,364,411</u>

The following is a summary of maturities of securities available-for-sale as of December 31, 2024. The amortized cost and estimated fair values are based on the contractual maturity dates except for mortgage-backed securities, which may mature earlier than their contractual maturity dates due to principal prepayments.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 3. Investment Securities – Available-For-Sale (continued)

	Securities Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due after one year but within five years	5,432,253	5,012,122
Due after five years but within ten years	90,137,581	75,211,059
Due after ten years	15,692,984	14,276,140
Mortgage-backed securities	118,144,630	105,341,573
	<u>\$229,407,448</u>	<u>\$199,840,894</u>

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

	December 31, 2024					
	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government sponsored agencies	\$ -	\$ -	\$ 1,572,517	\$ 256,124	\$ 1,572,517	\$ 256,124
SBA loan pools	-	-	400,352	40,829	400,352	40,829
Tax exempt municipal securities	1,254,720	56,359	7,118,693	786,108	8,373,413	842,467
Taxable municipal securities	1,324,007	28,857	61,149,686	12,646,843	62,473,693	12,675,700
Mortgage-backed securities	11,713,576	501,149	93,627,997	12,301,908	105,341,573	12,803,057
Corporate securities	4,231,407	992,553	13,718,190	2,031,099	17,949,597	3,023,652
	<u>\$ 18,523,710</u>	<u>\$ 1,578,918</u>	<u>\$ 177,587,435</u>	<u>\$ 28,062,911</u>	<u>\$ 196,111,145</u>	<u>\$ 29,641,829</u>

	December 31, 2023					
	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	\$ -	\$ -	\$ 14,924,996	\$ 69,032	\$ 14,924,996	\$ 69,032
U.S. Government sponsored agencies	-	-	1,532,303	263,082	1,532,303	263,082
SBA loan pools	-	-	424,437	38,146	424,437	38,146
Tax exempt municipal securities	-	-	8,503,968	647,854	8,503,968	647,854
Taxable municipal securities	-	-	63,866,650	13,259,156	63,866,650	13,259,156
Mortgage-backed securities	-	-	105,486,152	13,783,027	105,486,152	13,783,027
Corporate securities	-	-	20,611,485	3,127,374	20,611,485	3,127,374
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,349,991</u>	<u>\$ 31,187,671</u>	<u>\$ 215,349,991</u>	<u>\$ 31,187,671</u>

There were 134 and 200 securities in an unrealized loss position at December 31, 2024 and 2023, respectively. Of those, 123 and 200 were in an unrealized loss position for greater than twelve months at December 31, 2024 and 2023, respectively.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 3. Investment Securities – Available-For-Sale (continued)

Management evaluates securities for credit losses on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management believes the Company has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale. As such, no declines are deemed to be related to credit loss. There was no recorded allowance for credit losses on available-for-sale securities at December 31, 2024 and 2023.

At December 31, 2024 and 2023, respectively, securities with a book value of \$168,226,961 and \$208,254,977 and a market value of \$143,641,493 and \$180,970,578 were pledged to secure lines of credit with the Federal Reserve Discount Window, Federal Reserve Bank Term Funding Program, and Federal Home Loan Bank, as well pledged as collateral for derivative fair value positions. Also, there were securities pledged to secure public funds with a book value of \$4,224,963 and \$4,385,641 and a market value of \$3,720,330 and \$3,917,169, as of December 31, 2024 and 2023, respectively.

Note 4. Investment Securities – Held-To-Maturity

During the year ended December 31, 2022, the Company reclassified \$96.1 million in investments to held-to-maturity from available-for-sale. These securities were transferred at fair value at the time of the transfer, which became the new cost basis for the securities held-to-maturity. The pretax unrealized net holding loss on the available for sale securities on the date of transfer totaled approximately \$475 thousand and continued to be reported as a component of accumulated other comprehensive loss. This net unrealized loss is being amortized to interest income over the remaining life of the securities as a yield adjustment. There were no gains or losses recognized as a result of this transfer. The remaining pretax unrealized net holding loss on these investments was \$450 thousand and \$391 thousand at December 31, 2024 and 2023, respectively.

The Company's held-to-maturity portfolio is recorded at amortized cost. The Company has the ability and intent to hold these securities to maturity. At December 31, 2024 and 2023, the Company's held-to-maturity portfolio was comprised of municipal securities. The amortized cost and estimated fair values of securities held to maturity were:

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 4. Investment Securities – Held-To-Maturity (continued)

	December 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Tax exempt municipal securities	\$ 33,242,875	\$ -	\$ 5,390,112	\$27,852,763
Taxable municipal securities	60,603,296	-	14,310,309	46,292,987
	<u>\$ 93,846,171</u>	<u>\$ -</u>	<u>\$ 19,700,421</u>	<u>\$74,145,750</u>

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Tax exempt municipal securities	\$ 33,699,631	\$ -	\$ 4,747,080	\$28,952,551
Taxable municipal securities	60,616,334	-	13,627,124	46,989,210
	<u>\$ 94,315,965</u>	<u>\$ -</u>	<u>\$ 18,374,204</u>	<u>\$75,941,761</u>

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

	December 31, 2024					
	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Tax exempt municipal securities	\$ -	\$ -	\$ 33,242,875	\$ 5,390,112	\$ 27,852,763	\$ 5,390,112
Taxable municipal securities	-	-	60,603,296	14,310,309	46,292,987	14,310,309
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,846,171</u>	<u>\$19,700,421</u>	<u>\$ 74,145,750</u>	<u>\$19,700,421</u>

	December 31, 2023					
	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Tax exempt municipal securities	\$ -	\$ -	\$ 28,952,551	\$ 4,747,080	\$ 28,952,551	\$ 4,747,080
Taxable municipal securities	-	-	46,989,210	13,627,124	46,989,210	13,627,124
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,941,761</u>	<u>\$18,374,204</u>	<u>\$ 75,941,761</u>	<u>\$18,374,204</u>

Unrealized losses have not been recognized into income because the issuer(s) bonds are of high credit quality (rated AA or higher), we do not intend to sell prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continue to make timely principal and interest payments on the securities. The fair value is expected to recover as the securities near maturity. Considering the above factors, management has determined no declines are deemed to be a result of credit loss. At December 31, 2024 and 2023, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as nonaccrual for the year ended December 31, 2024 and 2023. There was no recorded allowance for credit losses on held-to-maturity securities at December 31, 2024 and 2023.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 5. Loans Receivable

The Company has prepared the below schedules for the year ended December 31, 2024 and 2023, by grouping loans based upon call report code.

Following is a summary of loans by major classification as of December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Commercial and industrial	\$ 68,824,370	\$ 64,388,610
Construction, land development & other land loans	205,302,196	179,978,295
Residential (1-4 family) first mortgages	390,675,934	367,015,608
Home equity loans & lines of credit	100,004,974	80,468,985
Commercial real estate	567,078,310	483,477,784
Consumer loans	7,252,230	9,627,849
Total loans	<u>1,339,138,014</u>	<u>1,184,957,131</u>
Unamortized net deferred loan fees	(233,967)	(770,075)
Less allowance for credit losses	(11,698,341)	(10,360,427)
Total loans, net	<u>\$ 1,327,205,706</u>	<u>\$ 1,173,826,629</u>

The following is a summary of information pertaining to our allowance for credit losses as of and for the years ended December 31, 2024 and 2023. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	<u>Commercial & Industrial</u>	<u>Construction & Land Development</u>	<u>Residential (1-4 family) Mortgages</u>	<u>Home Equity</u>	<u>Commercial Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance for credit losses:							
Balance December 31, 2022	\$ 659,441	\$ 1,617,446	\$ 3,167,985	\$ 934,729	\$ 3,627,091	\$ 103,927	\$ 10,110,619
Adjustment to allowance for adoption of ASU 2016-13	(31,664)	(78,463)	(153,680)	(45,344)	(188,395)	(5,042)	(502,588)
Charge-offs	(5,758)	-	-	-	-	-	(5,758)
Recoveries	500	2,270	-	-	-	384	3,154
Provisions	30,202	76,193	153,680	45,344	444,923	4,658	755,000
Balance December 31, 2023	\$ 652,721	\$ 1,617,446	\$ 3,167,985	\$ 934,729	\$ 3,883,619	\$ 103,927	\$ 10,360,427
Charge-offs	(24,599)	-	-	-	-	(12,041)	(36,640)
Recoveries	-	-	-	-	-	-	-
Provisions	1,602	441,901	25,487	97,986	799,676	7,902	1,374,554
Balance December 31, 2024	<u>\$ 629,724</u>	<u>\$ 2,059,347</u>	<u>\$ 3,193,472</u>	<u>\$ 1,032,715</u>	<u>\$ 4,683,295</u>	<u>\$ 99,788</u>	<u>\$ 11,698,341</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 5. Loans Receivable (continued)

Credit Quality Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass-rated loans.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 5. Loans Receivable (continued)

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2024:

	Term Loans by Year of Origination					Revolving	Total
	2024	2023	2022	2021	Prior		
Commercial and industrial							
Pass	\$ 16,239,873	\$ 8,804,851	\$ 14,261,722	\$ 4,992,371	\$ 10,081,749	\$ 14,337,885	\$ 68,718,451
Special Mention	-	-	-	-	50,438	-	50,438
Substandard	-	55,481	-	-	-	-	55,481
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Commercial and industrial	\$ 16,239,873	\$ 8,860,332	\$ 14,261,722	\$ 4,992,371	\$ 10,132,187	\$ 14,337,885	\$ 68,824,370
Current period gross write-offs	\$ (24,599)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (24,599)
Construction, land development & other land loans							
Pass	\$ 15,232,061	\$ 3,495,455	\$ 14,260,122	\$ 6,518,439	\$ 5,582,153	\$ 160,153,833	\$ 205,242,063
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	60,133	-	60,133
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Construction, land development & other land loans	\$ 15,232,061	\$ 3,495,455	\$ 14,260,122	\$ 6,518,439	\$ 5,642,286	\$ 160,153,833	\$ 205,302,196
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential (1-4 family) first mortgages							
Pass	\$ 49,916,291	\$ 50,950,120	\$ 123,342,178	\$ 88,756,602	\$ 62,295,764	\$ 15,046,312	\$ 390,307,267
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	368,667	-	368,667
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Residential (1-4 family) first mortgages	\$ 49,916,291	\$ 50,950,120	\$ 123,342,178	\$ 88,756,602	\$ 62,664,431	\$ 15,046,312	\$ 390,675,934
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Home equity loans & lines of credit							
Pass	\$ 11,351,999	\$ 8,189,970	\$ 283,693	\$ 1,678,430	\$ 3,692,784	\$ 74,790,047	\$ 99,986,923
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	18,051	-	18,051
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Home equity loans & lines of credit	\$ 11,351,999	\$ 8,189,970	\$ 283,693	\$ 1,678,430	\$ 3,710,835	\$ 74,790,047	\$ 100,004,974
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 5. Loans Receivable (continued)

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2024 (continued):

	2024	2023	2022	2021	Prior	Revolving	Total
Commercial real estate							
Pass	\$ 62,784,775	\$ 93,751,403	\$ 173,324,859	\$ 70,961,206	\$ 126,686,607	\$ 39,447,528	\$ 566,956,378
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	121,932	-	121,932
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Commercial real estate	\$ 62,784,775	\$ 93,751,403	\$ 173,324,859	\$ 70,961,206	\$ 126,808,539	\$ 39,447,528	\$ 567,078,310
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer loans							
Pass	\$ 2,549,208	\$ 825,471	\$ 1,234,236	\$ 1,072,917	\$ 977,051	\$ 576,014	\$ 7,234,897
Special Mention	-	-	-	-	17,333	-	17,333
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Consumer loans	\$ 2,549,208	\$ 825,471	\$ 1,234,236	\$ 1,072,917	\$ 994,384	\$ 576,014	\$ 7,252,230
Current period gross write-offs	\$ (12,041)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,041)

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2023:

	Term Loans by Year of Origination					
	2023	2022	2021	Prior	Revolving	Total
Commercial and industrial						
Pass	\$ 10,013,558	\$ 13,977,079	\$ 9,449,577	\$ 6,504,446	\$ 24,443,950	\$ 64,388,610
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial and industrial	\$ 10,013,558	\$ 13,977,079	\$ 9,449,577	\$ 6,504,446	\$ 24,443,950	\$ 64,388,610
Current period gross write-offs	\$ -	\$ -	\$ -	\$ (5,758)	\$ -	\$ (5,758)
Construction, land development & other land loans						
Pass	\$ 9,331,144	\$ 14,734,543	\$ 9,784,108	\$ 7,240,745	\$ 138,814,887	\$ 179,905,427
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	72,868	-	72,868
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial and industrial	\$ 9,331,144	\$ 14,734,543	\$ 9,784,108	\$ 7,313,613	\$ 138,814,887	\$ 179,978,295
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential (1-4 family) first mortgages						
Pass	\$ 51,811,420	\$ 119,024,507	\$ 98,334,926	\$ 72,145,291	\$ 25,088,476	\$ 366,404,620
Special Mention	-	-	-	234,236	-	234,236
Substandard	-	-	-	376,752	-	376,752
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial and industrial	\$ 51,811,420	\$ 119,024,507	\$ 98,334,926	\$ 72,756,279	\$ 25,088,476	\$ 367,015,608
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 5. Loans Receivable (continued)

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2023 (continued):

	2023	2022	2021	Prior	Revolving	Total
Home equity loans & lines of credit						
Pass	\$ 4,274,056	\$ 61,556	\$ 67,435	\$ 178,682	\$ 75,864,507	\$ 80,446,236
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	22,749	22,749
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial and industrial	\$ 4,274,056	\$ 61,556	\$ 67,435	\$ 178,682	\$ 75,887,256	\$ 80,468,985
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate						
Pass	\$ 65,961,261	\$ 173,102,907	\$ 75,875,693	\$ 136,676,543	\$ 31,736,050	\$ 483,352,454
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	125,330	-	125,330
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial and industrial	\$ 65,961,261	\$ 173,102,907	\$ 75,875,693	\$ 136,801,873	\$ 31,736,050	\$ 483,477,784
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer loans						
Pass	\$ 1,437,081	\$ 1,667,429	\$ 1,460,562	\$ 4,216,213	\$ 819,745	\$ 9,601,030
Special Mention	-	-	-	23,254	-	23,254
Substandard	-	-	-	3,565	-	3,565
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial and industrial	\$ 1,437,081	\$ 1,667,429	\$ 1,460,562	\$ 4,243,032	\$ 819,745	\$ 9,627,849
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 5. Loans Receivable (continued)

The following is a past due aging analysis of our loan portfolio at December 31, 2024 and 2023:

	December 31, 2024					
	Loans 30-59	Loans 60-89	Loans 90 Days or	Nonaccrual Loans	Current Loans	Total Loans
	Days Past Due	Days Past Due	More Past Due and Still Accruing			
Commercial and industrial	\$ -	\$ -	\$ 55,481	\$ -	\$ 68,768,889	\$ 68,824,370
Construction, land development & other land loan:	-	-	-	-	205,302,196	205,302,196
Residential (1-4 family) first mortgages	-	-	-	-	390,675,934	390,675,934
Home equity loans & lines of credit	-	-	-	-	100,004,974	100,004,974
Commercial real estate	-	-	-	-	567,078,310	567,078,310
Consumer loans	-	-	-	-	7,252,230	7,252,230
Total loans	\$ -	\$ -	\$ 55,481	\$ -	\$ 1,339,082,533	\$ 1,339,138,014

	December 31, 2023					
	Loans 30-59	Loans 60-89	Loans 90 Days or	Nonaccrual Loans	Current Loans	Total Loans
	Days Past Due	Days Past Due	More Past Due and Still Accruing			
Commercial and industrial	\$ -	\$ -	\$ -	\$ -	\$ 64,388,610	\$ 64,388,610
Construction, land development & other land loan:	-	-	-	-	179,978,295	179,978,295
Residential (1-4 family) first mortgages	-	-	-	-	367,015,608	367,015,608
Home equity loans & lines of credit	-	299,978	-	-	80,169,007	80,468,985
Commercial real estate	-	-	-	-	483,477,784	483,477,784
Consumer loans	23,254	-	-	-	9,604,595	9,627,849
Total loans	\$ 23,254	\$ 299,978	\$ -	\$ -	\$ 1,184,633,899	\$ 1,184,957,131

The Company designates individually evaluated loans on nonaccrual status as collateral-dependent loans, as well as other loans that management of the Company designates as having higher risk. Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral-dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required. For the years ended December 31, 2024 and 2023, the Company had no loans determined to be collateral-dependent.

The Company had no loans classified as nonaccrual for the year ended December 31, 2024 or 2023. Additionally, no accrued interest receivable was written off by reversing interest income during the years ended December 31, 2024 or 2023.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 5. Loans Receivable (continued)

Modifications to Borrowers Experiencing Financial Difficulty:

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

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one of the type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession such as principal forgiveness, may be granted. As such multiple types of modifications may have been made on the same loan within the current reporting period, each must be reported. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

There were no loan modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2024 and 2023. Additionally, there were no loans previously modified during the year ended December 31, 2023 that subsequently defaulted during 2024. There were no loans previously modified during the year ended December 31, 2022 that subsequently defaulted during 2023.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 5. Loans Receivable (continued)

Unfunded commitments:

The Bank maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision (reversal) for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

On January 1, 2023, the Company recorded an adjustment for liability for unfunded commitments of \$502,587 for the adoption of ASC Topic 326. For the year ended December 31, 2023, the determined the adjustment for liability for unfunded commitments of \$502,587 remained appropriate.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2024.

	<u>2024</u>
Balance, December 31, 2023	\$ 502,587
Provision for unfunded commitments	57,446
Balance, December 31, 2024	<u>\$ 560,033</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 6. Premises, Furniture and Equipment

Premises, furniture and equipment is summarized as follows as of December 31:

	<u>2024</u>	<u>2023</u>
Land	\$ 7,371,703	\$ 7,371,703
Buildings and leasehold improvements	15,579,718	15,323,310
Furniture and equipment	7,154,641	6,838,968
Software	1,204,810	1,192,960
Automobile	69,465	69,464
Construction in progress	<u>8,837,464</u>	<u>2,702,637</u>
Total	40,217,801	33,499,042
Less accumulated depreciation	<u>12,314,907</u>	<u>11,209,317</u>
Premises, furniture and equipment, net	<u>\$ 27,902,894</u>	<u>\$ 22,289,725</u>

Depreciation expense for the years ended December 31, 2024 and 2023 was \$1,082,435 and \$2,158,583, respectively.

Note 7. Deposits

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

2025	\$ 181,512,030
2026	36,584,150
2027	4,412,319
2028	480,632
2029	<u>112,084</u>
Total	<u>\$223,101,215</u>

As of December 31, 2024 and 2023, respectively, the Bank had brokered deposits of \$50,723,000 and \$15,239,000.

Management reviews estimates of deposit balances which may have exceeded the FDIC insurance limit of \$250,000 on a quarterly basis. The Company had no material deposit concentrations to municipalities or other industry types as of December 31, 2024 and 2023.

Note 8. Borrowings

As of December 31, 2024 and 2023, advances from the Federal Home Loan Bank ("FHLB") totaled \$100.0 million. Pursuant to collateral agreements with the FHLB, advances are secured by stock in the FHLB and by qualifying first mortgage, home equity lines of credit, commercial real estate and multifamily loans. Pledged collateral to the FHLB totaled \$140.2 million and \$218.7 million, as of December 31, 2024 and 2023, respectively.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 8. Borrowings (continued)

The following table reflects FHLB advances outstanding as of December 31:

	2024	2023
Advance amount	\$ 80,000,000	\$ 80,000,000
Maturity Date	January 13, 2025	January 24, 2024
Rate	4.51%	5.44%
Advance amount	\$ 20,000,000	\$ 20,000,000
Maturity Date	January 17, 2025	January 29, 2024
Rate	4.43%	5.46%

In 2023, the Company established a line of credit with the Federal Reserve Bank's Bank Term Funding Program by pledging securities as described within Note 3. The program ended in March 2024 and the Company's outstanding balance is due in January 2025. As of December 31, 2024, the balance available for borrowing was \$61.6 million, with outstanding advances of \$60.0 million. As of December 31, 2023, the balance available for borrowing was \$95.8 million, with outstanding advances of \$75.0 million.

The Company has established a line of credit with the Federal Reserve Bank's Discount Window by pledging securities as described within Note 3. As of December 31, 2024, the balance available for borrowing was \$79.7 million with no outstanding balances. As of December 31, 2023, the balance available for borrowing was \$106.7 million with no outstanding balances.

Note 9. Subordinated Debentures

On December 16, 2021, the Company sold and issued to certain institutional investors \$30.0 million in aggregate principal amount of 3.25% fixed-to-floating rate subordinated notes (the "Notes") due 2031. The Notes have a stated maturity of 2031, and bear interest at a fixed rate of 3.25% per year, from and including December 16, 2021, but excluding December 16, 2026. From and including December 16, 2026, to but excluding the maturity date or early redemption date, the interest rate shall reset semi-annually to an interest rate equal to the then-current three-month SOFR rate. The Notes are payable quarterly in arrears on April 15, July 15, October 15 and January 15 of each year commencing April 15, 2022.

The Notes are not subject to redemption at the option of the holder and may be redeemed by the Company only under certain limited circumstances prior to December 16, 2026. The Company may redeem the Notes at its option, in whole at any time, or in part from time to time, after December 16, 2026. The Notes are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note is equal in right to payment with respect to the other Notes.

The Notes have been structured to qualify as Tier 2 capital for the Company under applicable regulatory guidelines. The balance of the subordinated debentures was \$30.0 million at December 31, 2024 and 2023.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 10. Stock Compensation Plan

The Company has adopted a 2007 Stock Incentive Plan and a 2017 Stock Incentive Plan, under which an aggregate of 659,1300 and 575,000 shares of common stock, respectively, have been reserved for issuance as stock options by the Company. The options are granted at an exercise price at least equal to the fair value of the common stock at the date of grant and expire ten years from the date of the grant. The vesting period for option grants will vary based on the timing of the grant. Options that expire without issuance, forfeitures, shares used as partial payment to the Company for the purchase price of the award, or an award settled in cash, including for payroll taxes, are added back to the shares available to be awarded under the plan. As of December 31, 2024, a total of 22,042 and 430,000 shares were remaining in the plans to be issued.

In connection with the merger of Atlantic Community Bank in April 2018, the Company assumed the obligations of Atlantic Bancshares, Inc. which included five different Incentive Stock Option plans. As a result, the Company registered an aggregate 115,612 shares of common stock related to these plans. There are no additional shares available to be awarded under any of the Plans. All options were fully vested at the time of the merger.

Activity in the Company's stock option plans is summarized in the following table. This table does not include warrants that were exercised and forfeited during the years ended December 31, 2024 and 2023.

	2024		2023	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1,	355,625	12.16	280,281	\$ 11.86
Granted	-	-	85,000	12.76
Exercised	(969)	11.31	(9,656)	8.78
Forfeited/Expired	-	-	-	-
Outstanding at December 31,	<u>354,656</u>	<u>11.23</u>	<u>355,625</u>	<u>\$ 12.16</u>
Exercisable at December 31,	<u>279,657</u>	<u>12.03</u>	<u>209,807</u>	<u>\$ 11.36</u>

The aggregate intrinsic value of the 354,656 and 355,625 stock options outstanding at December 31, 2024 and 2023 was \$1,294,257 and \$209,170, respectively. The aggregate intrinsic value of 279,657 and 209,807 stock options exercisable at December 31, 2024 and 2023 was \$1,069,593 and \$290,890, respectively. Intrinsic value represents the amount by which the fair market value of the underlying stock exceeds the exercise price of the stock option.

The following table summarizes information about stock options outstanding under the Company's Plans at December 31, 2024 and 2023.

	2024	2023
Number of options	354,656	355,625
Weighted average remaining life	5 year	6 years
Weighted average exercise price	\$ 11.23	\$ 12.16
High exercise price	\$ 15.40	\$ 15.40
Low exercise price	\$ 8.16	\$ 8.16
Aggregate intrinsic value	\$ 1,294,257	\$ 904,822

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 10. Stock Compensation Plan (continued)

During 2023, the Company granted 85,000 stock options. Options granted ratably vest over the terms below. The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing, resulting in a total expense of \$233,016.

The Black-Scholes model with assumptions for stock options granted in 2023 are presented below. There were no stock options granted in 2024.

Grant date	<u>Dec 29, 2023</u>
Total number of options granted	85,000
Expected volatility	24.00%
Expected term	3 years
Expected dividend	0.00%
Risk-free rate	4.01%
Grant date fair value	2.774
Vesting	3 years
Exercise Price	\$12.75

As of December 31, 2024, there was \$213,556 of total unrecognized compensation cost related to non-vested stock option grants under the plan. The cost is expected to be recognized over a weighted-average period of two years as of December 31, 2024.

As of December 31, 2023, there was \$398,360 of total unrecognized compensation cost related to non-vested stock option grants under the plan. The cost is expected to be recognized over a weighted-average period of three years as of December 31, 2023.

Note 11. Stock Warrants

The organizers of the Company received stock warrants giving them the right to purchase one share of common stock for every share they purchased in the initial offering of the Company's common stock up to 13,310 shares at a price of \$7.51 per share, as adjusted for the stock dividends. The warrants vest ratably over a five year period and terminate ten years after date of grant. During 2017, the warrants expiration date was extended another ten years. Warrants held by directors of the Company will expire 90 days after the director ceases to be a director or officer of the Company (365 days if due to death or disability).

At December 31, 2024 there were 93,170 warrants outstanding and exercisable. During the year ended December 31, 2024 there were no shares exercised or cancelled. At December 31, 2023 there were 93,170 warrants outstanding and exercisable. During the year ended December 31, 2023 there were no warrants exercised or cancelled. All warrants outstanding will expire on November 28, 2027 unless otherwise extended.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 12. Income Taxes

Income tax expense is summarized as follows for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Current income tax expense:		
Federal	\$ 2,713,800	\$ 2,305,971
State	<u>522,914</u>	<u>257,448</u>
Total	<u>3,236,714</u>	<u>2,563,419</u>
Deferred income tax (benefit) expense:		
Federal	(320,375)	167,062
State	<u>10,570</u>	<u>-</u>
Total	<u>(309,805)</u>	<u>167,062</u>
Income tax expense	<u>\$ 2,926,909</u>	<u>\$ 2,730,481</u>

The gross amounts of deferred tax assets and deferred tax liabilities are as follows as of December 31:

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Allowance for credit losses	\$ 2,581,013	\$ 2,282,086
Net operating loss carryforward	1,063,793	1,088,222
Unrealized loss on securities available for sale and cash flow hedge	7,252,444	7,830,590
Federal and state credits	877,809	895,540
Stock based compensation	53,336	53,336
Deferred compensation	1,317,881	1,115,688
Other	<u>95,832</u>	<u>182,245</u>
Total deferred tax assets	13,242,108	13,447,707
Valuation allowance	<u>(402,314)</u>	<u>(342,435)</u>
Net deferred tax assets	<u>12,839,794</u>	<u>13,105,272</u>
Deferred tax liabilities:	<u>2024</u>	<u>2023</u>
Accumulated depreciation	\$ 1,139,756	\$ 1,186,950
Loan origination costs	623,585	544,424
Prepaid expenses	145,064	148,520
Purchase accounting adjustments	<u>36,895</u>	<u>62,542</u>
Total deferred tax liabilities	<u>1,945,300</u>	<u>1,942,436</u>
Net deferred tax asset	<u>\$ 10,894,494</u>	<u>\$ 11,162,836</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 12. Income Taxes (continued)

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. Management's judgment is based on estimates concerning future income earned and positive earnings for the years ended December 31, 2024 and 2023. Management has concluded that sufficient positive evidence exists to overcome any and all negative evidence in order to meet the "more likely than not" standard regarding the realization of the net deferred tax assets. As of December 31, 2024 and 2023, a valuation allowance in the amount of \$402,314 and \$342,435, respectively, remains for state holding company losses.

The Company has a net operating loss carryforward of \$3,190,109 and \$3,591,575 as of December 31, 2024 and 2023, respectively. These net operating loss carryforwards begin to expire in the year 2029.

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% in 2024 and 2023, respectively, to income before income taxes follows for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Tax expense at statutory rate	\$ 2,726,283	\$ 2,677,325
State income tax, net of federal income tax benefit	361,574	203,384
Change in valuation allowance	59,879	61,876
Cash surrender value of life insurance	(222,171)	(172,362)
Tax exempt interest	-	-
Stock compensation	38,383	33,271
Other	<u>(37,039)</u>	<u>(73,013)</u>
Income tax expense	<u>\$ 2,926,909</u>	<u>\$ 2,730,481</u>

Tax returns for 2021 and subsequent years are subject to examination by taxing authorities. The Company has analyzed the tax positions taken or expected to be taken on its tax returns and concluded it has no liability related to uncertain tax positions in accordance with ASC Topic 740.

Note 13. Employee Benefits

The Bank sponsors a defined contribution 401(k) plan covering substantially all full-time employees. Under the plan and present policies, participants are permitted to make contributions up to the deferral limits allowed by the Internal Revenue Service. The Company contributes to the Plan annually upon approval by the Board of Directors. The amount of the contributions made is at the discretion of the Board with vesting of these employer contributions occurring over each employee's initial five years of employment. During the years ended December 31, 2024 and 2023, the Company recognized \$344,017 and \$318,845, respectively, in expenses related to this plan which are included in salaries and employee benefits.

On January 1, 2013, the Company converted the defined contribution 401(k) contribution plan into a 401(k) Employee Stock Ownership Plan ("KSOP"), which provides a mechanism for Company employees to invest in the Company. Each employee who has attained age 21, is employed at least 90 days, has completed at least 500 hours of service in a Plan year, and is employed the last business day of the plan year is eligible to participate in the KSOP. Upon approval of the Board to contribute shares to employees, the Company recognizes the related

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 13. Employee Benefits (continued)

compensation expense in the year the shares are allocated to employees. For the years ended December 31, 2024 and 2023, there was compensation expense of \$400,000 and \$337,500 related to contribution of shares to the KSOP, which is included in salaries and employee benefits. Thirty thousand shares were contributed and allocated to employees for 2024 and 2023, respectively.

The Bank has a Salary Continuation Plan (the “Plan”) for certain senior officers. The Plan provides an annual post-retirement cash payment beginning after a chosen retirement date for certain officers of the Bank. The officers will receive an annual payment from the Bank equal to the promised benefits. In connection with this plan, life insurance contracts were purchased on the officers. The cash value of the life insurance contracts increased \$1,057,959 and \$820,770 for the years ended December 31, 2024 and 2023, respectively and are included in noninterest income. Cash values of the policies were \$35,403,071 and \$34,345,112 at December 31, 2024 and 2023, respectively. The corresponding liability associated with the Plan was \$5,475,420 and \$4,643,420 at December 31, 2024 and 2023, respectively and is included in other liabilities. Expenses related to the Plan were \$937,000 and \$473,000 for the years ended December 31, 2024 and 2023, respectively and are included in salaries and employee benefits.

The Bank also has a Director Retirement Plan (“Director Plan”) for its Board of Directors. The Director Plan provides an additional source of retirement income to a Director for a period of time upon their separation from the Bank in recognition of their service to the Bank. The corresponding liability associated with the Director Plan was \$780,126 and \$667,392 for the years ended December 31, 2024 and 2023, respectively, and is included in other liabilities. The liability is calculated by the third party that manages the Director Plan. Expenses related to the Director Plan were \$112,734 and \$102,091 for the years ended December 31, 2024 and 2023, respectively and are included in other operating expenses.

Note 14. Leases

The Bank has entered into agreements to lease various office facilities under non-cancellable operating lease agreements. At December 31, 2024, the Company’s leases had remaining lease terms of one year to 15 years, which include options to extend or terminate the lease. These options to extend or terminate the lease are included when it is reasonably certain that the options will be exercised.

Lease expense totaled \$1,537,505 and \$1,320,954 for the years ended December 31, 2024 and 2023, respectively and is included in net occupancy. We do not apply the recognition requirements of ASC 842 to short-term leases (i.e., less than 12 months), and recognize the lease payments on a straight-line basis over the term of the lease.

Supplemental balance sheet information related to operating leases at December 31:

	<u>2024</u>	<u>2023</u>
Right of use operating lease asset	\$ 8,573,256	\$ 8,041,100
Operating lease liability	9,057,437	8,460,312
Weighted average remaining lease term	8.50	9.13
Weighted average discount rate	3.48%	3.46%

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 14. Leases (continued)

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year, for each of the next five years and thereafter in the aggregate are:

2025	\$ 1,080,429
2026	1,056,351
2027	1,067,883
2028	1,106,645
2029 and thereafter	<u>6,271,838</u>
Total	<u>\$ 10,583,145</u>
Less: effect of discount	<u>1,525,708</u>
Lease Liability	<u>\$ 9,057,437</u>

The Company is leasing a portion of its Murrells Inlet and Mount Pleasant locations to unrelated tenants. Lease income generated from these tenants totaled \$158,670 and \$188,539 during the years ended December 31, 2024 and 2023, respectively and is included in other income.

Note 15. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families, and their business interests) are loan customers of and have other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. As of December 31, 2024, and 2023, the Company had related party loans totaling \$5,900,401 and \$7,966,911, respectively.

The following table summarizes related party loans:

	<u>2024</u>	<u>2023</u>
Balance at the beginning of the year	\$ 7,966,911	\$ 8,302,151
New loans or advances	-	2,352,322
Repayments	<u>(2,066,510)</u>	<u>(2,687,562)</u>
Balance at the end of the year	<u>\$ 5,900,401</u>	<u>\$ 7,966,911</u>

There were also outstanding lines of credit available to related parties with available balances of \$4,086,000 and \$4,108,248 at December 31, 2024 and 2023, respectively.

In 2017, three executives of the Bank exercised 402,799 stock options with the Company. Notes receivable in the total amount of \$3,392,274, were issued for the exercise of the options. The total for the note receivable was determined to be the contractual exercise price of the stock options, adjusted for federal and state income taxes.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 15. Related Party Transactions (continued)

During 2023, other notes were renewed with an interest rate of 4.8% per annum and is due and payable on demand by the Company, no later than June 8, 2027. During 2022, one of the three executives satisfied the outstanding balance due from the loan. The remaining balance of the notes receivables was \$2,757,512 and \$2,759,226 as of December 31, 2023 and 2022 respectively.

Deposits by directors, including their affiliates and executive officers, were \$71,572,561 and \$51,803,342 at December 31, 2024 and 2023, respectively.

Note 16. Commitments and Contingencies

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings which would have a material adverse effect on the financial position or operating results of the Company.

Note 17. Income per Share

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted income per share is computed by dividing net income by the weighted-average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock warrants and stock options.

The effect from stock options on incremental shares from the assumed conversions for basic income per share and diluted income per share are presented below:

	<u>2024</u>	<u>2023</u>
Income per common share – basic computation:		
Net income	\$ 10,055,392	\$ 10,018,682
Average common shares outstanding – basic	<u>7,588,455</u>	<u>7,548,410</u>
Basic income per common share	<u>\$ 1.33</u>	<u>\$ 1.33</u>
Income per common share – diluted computation:		
Net income	\$ 10,055,392	\$ 10,018,682
Average common shares outstanding – basic	7,588,455	7,548,410
Incremental shares from assumed conversions:		
Stock options and warrants	<u>73,085</u>	<u>57,902</u>
Average common shares outstanding – diluted	<u>7,661,540</u>	<u>7,606,312</u>
Diluted income per common share	<u>\$ 1.31</u>	<u>\$ 1.32</u>

At December 31, 2024, the Company excluded 203,160 potentially dilutive shares of common stock issuable upon exercise of stock options with a weighted average exercise price of \$13.09 from the computation of dilutive income per common share because of their antidilutive effect. At December 31, 2023, the Company excluded 237,460 potentially dilutive shares of common stock issuable upon exercise of stock options with a weighted average exercise price of \$13.57 from the computation of dilutive income per common share because of their antidilutive effect.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 18. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for credit losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Company and the Bank are also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank is required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of CET1, but the buffer applies to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer was phased in incrementally over time, beginning January 1, 2016 at 0.625% and becoming fully effective on January 1, 2019. The capital conservation buffer consists of an additional amount of Tier 1 capital equal to 2.50% of risk-weighted assets, which was in effect for the year ended December 31, 2023.

As of its most recent regulatory examination, the Bank was deemed well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed the Bank's categories.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 18. Regulatory Matters (continued)

The following table summarizes the capital ratios and the regulatory minimum requirements of the Bank at December 31:

	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>To be well-capitalized under prompt corrective action provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Minimum</u>	<u>Ratio</u>	<u>Minimum</u>	<u>Ratio</u>
December 31, 2024						
Total capital (to risk-weighted assets)	\$ 166,480,000	11.87%	112,010,000	8.00%	140,013,000	10.00%
Tier 1 capital (to risk-weighted assets)	153,929,000	10.99%	84,008,000	6.00%	112,010,000	8.00%
Tier 1 capital (to average assets)	153,929,000	8.49%	72,542,000	4.00%	90,678,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	153,929,000	10.99%	63,006,000	4.50%	91,008,000	6.50%
December 31, 2023						
Total capital (to risk-weighted assets)	\$ 152,893,000	12.23%	\$ 100,043,000	8.00%	\$ 125,053,000	10.00%
Tier 1 capital (to risk-weighted assets)	142,030,000	11.36%	75,032,000	6.00%	100,043,000	8.00%
Tier 1 capital (to average assets)	142,030,000	8.84%	64,270,000	4.00%	80,338,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	142,030,000	11.36%	56,274,000	4.50%	81,285,000	6.50%

Note 19. Unused Lines of Credit

As of December 31, 2024, the Company had available lines of credit to purchase federal funds from unrelated banks totaling \$58,000,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. As of December 31, 2024 and 2023, respectively, there was no outstanding balance on the lines of credit for federal funds.

Note 20. Restrictions on Dividends

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from its banking subsidiary. Federal and state banking regulations restrict the amount of dividends that can be paid. Dividends are payable only from the retained earnings of the banking subsidiary and may be limited to the amount of current year earnings without prior regulatory approval. The retained earnings of the banking subsidiary were \$72,466,059 and \$60,711,973 at December 31, 2024 and 2023, respectively.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 21. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities. A portion of the Company's commitments to extend credit are unconditionally cancellable and are therefore not considered for credit loss exposure when determining the liability for unfunded commitments as of December 31, 2024.

Collateral held for commitments to extend credit and letters of credit varies, but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties.

The following table summarizes the Bank's off-balance-sheet financial instruments whose contract amounts represent credit risk at December 31:

	<u>2024</u>	<u>2023</u>
Commitments to extend credit	\$ 360,641,710	\$ 388,139,918
Letters of credit	<u>1,571,031</u>	<u>2,282,296</u>
Total	<u>\$ 362,212,741</u>	<u>\$ 390,422,214</u>

Note 22. Fair Value of Financial Instruments

Accounting standards require disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, individually evaluated).

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

- Level 1 Quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries and money market funds.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 22. Fair Value of Financial Instruments (continued)

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities, and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and collateral dependent loans.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

Investment Securities Available-for-Sale – Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Derivative Financial Instruments – The Company's derivative financial instruments, which are interest rate contracts, are valued using the discounted cash flow method that incorporates market interest rates.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 22. Fair Value of Financial Instruments (continued)

Assets:	December 31, 2024			
	Total	Level 1	Level 2	Level 3
U.S. Government sponsored agencies	\$ 1,572,517	\$ --	\$ 1,572,517	\$ --
Tax exempt municipal securities	10,730,953	--	10,730,953	--
Taxable municipal securities	75,149,393	--	75,149,393	--
Mortgage-backed securities	118,144,630	--	118,144,630	--
SBA loan pools	441,181	--	441,181	--
Corporate debt securities	23,112,650	--	23,112,650	--
Mortgage loans held-for-sale	1,176,440	--	1,176,440	--
Total	<u>\$ 230,327,764</u>	<u>\$ --</u>	<u>\$ 230,327,764</u>	<u>\$ --</u>
Liabilities - Derivatives	\$ 969,508	\$ --	\$ 969,508	\$ --

Assets:	December 31, 2023			
	Total	Level 1	Level 2	Level 3
U.S. Treasuries	\$ 14,924,996	\$14,924,996	\$ --	\$ --
U.S. Government sponsored agencies	1,532,303	--	1,532,303	--
Tax exempt municipal securities	10,051,379	--	10,051,379	--
Taxable municipal securities	63,894,853	--	63,894,853	--
Mortgage-backed securities	105,486,152	--	105,486,152	--
SBA loan pools	424,437	--	424,437	--
Corporate debt securities	23,050,291	--	23,050,291	--
Mortgage loans held-for-sale	949,389	--	949,389	--
Total	<u>\$ 220,313,800</u>	<u>\$14,924,996</u>	<u>\$ 205,388,804</u>	<u>\$ --</u>
Liabilities - Derivatives	\$ 2,500,208	\$ --	\$ 2,500,208	\$ --

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a non-recurring basis.

Mortgage Loans Held-for-Sale – The fair values of mortgage loans held-for-sale are derived from an active market of similar loans and as such are classified as Level 2 in the fair value hierarchy.

Collateral Dependent Loans - The Bank has identified collateral dependent loans with fair value considerations as those loans with a recorded investment less the applicable reserve allocation. The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent loans are classified within level 2 of the fair value hierarchy. The Bank considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral securing collateral dependent loans are obtained when the loan is determined to be collateral dependent and subsequently, as deemed necessary, according to Bank policy. Appraisers are selected from the list of approved appraisers maintained by Management. Appraisals are only obtained from independent licensed appraisers following Uniform Standards of Professional Appraisal Practice. As of December 31, 2024 and 2023, the Company had no collateral dependent loans.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 22. Fair Value of Financial Instruments (continued)

Other Real Estate Owned – Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. As of December 31, 2024 and 2023 the Company had no OREO.

The tables below present the balances of assets and liabilities measured at fair value on a non-recurring basis by level within the hierarchy.

	December 31, 2024			
	Total	Level 1	Level 2	Level 3
Mortgage loans held-for-sale	\$ 1,176,440	\$	\$ 1,176,440	\$ –

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Mortgage loans held-for-sale	\$ 949,389	\$	\$ 949,389	\$ –

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Cash and Due from Banks – The carrying amount is a reasonable estimate of fair value.

Federal Funds Sold and Interest-Bearing Deposits – Federal funds are sold for a term of one day, and the carrying amount approximates the fair value.

Securities Available-for-Sale – Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 22. Fair Value of Financial Instruments (continued)

Nonmarketable Equity Securities – The carrying value of these securities approximates the fair value since no ready market exists for the stocks.

Mortgage Loans Held-for-Sale – The carrying value of mortgage loans held-for-sale approximates fair value.

Loans Receivable – The valuation of loans receivable is estimated using the exit price notion which incorporates factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, individually evaluated loans and all other loans. The results are then adjusted to account for credit risk as described above.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

Bank-Owned Life Insurance – The carrying amount is a reasonable estimate of fair value.

Deposits – The fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The fair values of certificates of deposit and other time deposits are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Subordinated debentures – The fair value is estimated by discounting the future cash flows using the current rates at which similar debenture offerings with similar terms and maturities would be issued by similar institutions. As discount rates are based on current debenture rates as well as management estimates, the fair values presented may not be indicative of the value negotiated in an actual sale.

Advances from Federal Reserve – For disclosure purposes, the fair value of the fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Advances from Federal Home Loan Bank – For disclosure purposes, the fair value of the fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest Receivable and Payable – The carrying value of these instruments is a reasonable estimate of fair value. As current rates are based on daily advance rates, the carrying amount is deemed to be a reasonable estimate of fair value.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 22. Fair Value of Financial Instruments (continued)

The carrying values and estimated fair values of the Company's financial instruments as of December 31 are as follows:

	December 31, 2024				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	\$ 60,640,379	\$ 60,640,379	\$ 60,640,379	\$ -	\$ -
Federal funds sold and interest-bearing deposits	729,199	729,199	729,199	-	-
Securities available-for-sale	199,840,894	199,840,894	-	199,840,894	-
Securities held-to-maturity	93,846,171	74,145,749	-	74,145,749	-
Nonmarketable equity securities	5,904,800	5,904,800	-	-	5,904,800
Loans held-for-sale	1,176,440	1,176,440	-	1,176,440	-
Loans receivable, net	1,327,205,706	1,288,107,251	-	-	1,288,107,251
Bank-owned life insurance	35,403,071	35,403,071	35,403,071	-	-
Accrued interest receivable	6,702,560	6,702,560	6,702,560	-	-
Financial Liabilities:					
Demand deposit, interest-bearing transaction, and savings accounts	1,237,552,358	1,237,552,358	1,237,552,358	-	-
Certificates of deposit and other time deposit	223,101,215	223,382,828	-	223,382,828	-
Subordinated debentures	30,000,000	22,800,000	-	22,800,000	-
Advances from FRB	100,000,000	100,000,000	-	100,000,000	-
Accrued interest payable	3,541,558	3,541,558	3,541,558	-	-
Derivatives	969,508	969,508	-	969,508	-
	December 31, 2023				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	\$ 16,391,819	\$ 16,391,819	\$ 16,391,819	\$ -	\$ -
Federal funds sold and interest-bearing deposits	20,807,745	20,807,745	20,807,745	-	-
Securities available-for-sale	219,364,411	219,364,411	14,924,996	204,439,415	-
Securities held-to-maturity	94,315,965	75,941,761	-	75,941,761	-
Nonmarketable equity securities	5,772,400	5,772,400	-	-	5,772,400
Loans held-for-sale	949,389	949,389	-	949,389	-
Loans receivable, net	1,173,826,629	1,125,656,732	-	-	1,125,656,732
Bank-owned life insurance	34,345,112	34,345,112	34,345,112	-	-
Accrued interest receivable	6,329,248	6,329,248	6,329,248	-	-
Financial Liabilities:					
Demand deposit, interest-bearing transaction, and savings accounts	1,153,655,958	1,153,655,958	1,153,655,958	-	-
Certificates of deposit and other time deposit	140,440,579	137,051,504	-	137,051,504	-
Subordinated debentures	30,000,000	22,800,000	-	22,800,000	-
Advances from FRB	75,000,000	75,000,000	-	75,000,000	-
Accrued interest payable	478,012	478,012	478,012	-	-
Derivatives	2,500,208	2,500,208	-	2,500,208	-

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 23. Derivatives

The Company utilizes interest rate swaps agreements as part of its asset-liability management strategy to help mitigate its interest rate risk. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. Derivative financial instruments are recorded in the Consolidated Balance Sheets as either an asset or a liability (in other assets or other liabilities, respectively) and measured at fair value.

	2024		2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other liabilities:				
Derivatives designated as hedges:				
Interest rate swaps related to cash flow hedges	\$ 100,000,000	(279,357)	\$ 100,000,000	\$ (1,059,442)
Interest rate swaps related to fair value hedges	56,250,000	(690,151)	75,000,000	(1,440,766)
Total Included in other Liabilities	<u>\$ 156,250,000</u>	<u>\$ (969,508)</u>	<u>\$ 175,000,000</u>	<u>\$ (2,500,208)</u>

The Company did not have any derivatives that are not designated as hedges as of December 31, 2024 and 2023.

Fair Value Hedges

Fair value hedge interest rate swaps mature on various dates with a combined notional amount of \$56.3 million and \$75.0 million at December 31, 2024 and 2023, respectively. The risk management objective with respect to the fair value hedges is to hedge the risk of certain fixed-rate loans. These fair value hedges convert the fixed rates of the loans to 1-month compounded average Secured Overnight Financing Rate ("SOFR"). The hedges were determined to be effective during the periods presented. The Company expects these hedges to remain effective during the remaining term of the swap.

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustment for the fair value hedges as of December 31, 2024 and 2023:

Line Item in The Balance Sheet in Which the Hedges Item is Included	Carrying Amount of the Hedged Assets (Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)	
	2024	2023	2024	2023
	Residential (1-4 family) first mortgages	\$ 116,222,899	\$ 132,536,327	\$ 693,490

There were no discontinued hedging relationships, and therefore, the above balances do not include any adjustments on discontinued hedging relationships. As of December 31, 2024 and 2023, the total notional amount of the pay-fixed/receive variable interest rate swap portfolio was \$56.3 million and \$75.0 million, respectively.

The following table summarizes information about the interest rate swaps designated as fair value hedges at December 31, 2024 and 2023:

	2024	2023
Notional Amount of fair value hedges	\$ 56,250,000	\$ 75,000,000
Fixed Pay Rate	4.75%	4.75%
Average SOFR Receive Rate	5.17%	5.34%
Weighted Average Maturity	1.28	2.28

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 23. Derivatives (continued)

The following table presents the change in fair value for derivatives designated as fair value hedges as well as the offsetting change in fair value on the hedged item for the years ended December 31, 2024 and 2023:

	Year Ended December	
	Gain / (Loss)	
	2024	2023
Fair value hedge: gain (loss)		
Change in fair value of interest rate swaps hedging certain fixed rate loans	\$ 750,615	\$ (1,440,766)
Change in fair value of hedged fixed rate loans	\$ (750,966)	\$ 1,444,456

The following table presents the effect of Fair Value Hedge Accounting on the Consolidated Statements of Operations and the location and amount of gain or (loss) recognized in income on Fair Value hedging relationships for the years ended December 31, 2024 and 2023:

	Year Ended December	
	2024	2023
	Interest Income	Interest Income
	(Offset to Interest Income)	(Offset to Interest Income)
Fair value hedge: gain (loss)		
Change in fair value of interest rate swaps hedging certain fixed rate loans	\$ 750,615	\$ (1,440,766)
Change in fair value of hedged fixed rate loans	\$ (750,966)	\$ 1,444,456

Cash Flow Hedges

A cash flow hedge interest rate swap that matures on February 28, 2025 had a notional amount of \$20.0 million as of December 31, 2024 and 2023. The risk management objective with respect to the cash flow hedge is to hedge the risk of variability in the Company's cash flows (future interest payments) attributable to changes in the 1-month compounded average SOFR rate pertaining to fluctuations in market interest rates on \$20.0 million of FHLB, brokered Certificate of Deposits or other fixed rate advances for that period. The objective of the hedge is to offset the variability of cash flows due to the rollover of the Company's fixed-rate 1-month FHLB or another fixed rate advance monthly until the swap matures. The hedge was determined to be effective during the periods presented. The Company expects the hedge to remain effective during the remaining term of the swap.

A cash flow hedge interest rate swap that matures on February 28, 2026 had a notional amount of \$40.0 million as of December 31, 2024 and 2023. The risk management objective with respect to the cash flow hedge is to hedge the risk of variability in the Company's cash flows (future interest payments) attributable to changes in the 1-month compounded average SOFR rate pertaining to fluctuations in market interest rates on \$40.0 of FHLB, brokered Certificate of Deposits or other fixed rate advances for that period. The objective of the hedge is to offset the variability of cash flows due to the rollover of the Company's fixed-rate 1-month FHLB or another fixed rate advance monthly until the swap matures. The hedge was determined to be effective during the periods presented. The Company expects the hedge to remain effective during the remaining term of the swap.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 23. Derivatives (continued)

A cash flow hedge interest rate swap that matures on July 3, 2026 had a notional amount of \$20.0 million as of December 31, 2024 and 2023. The risk management objective with respect to the cash flow hedge is to hedge the risk of variability in the Company's cash flows (future interest payments) attributable to changes in the 1-month compounded average SOFR rate pertaining to fluctuations in market interest rates on \$20.0 million of FHLB, brokered Certificate of Deposits or other fixed rate advances for that period. The objective of the hedge is to offset the variability of cash flows due to the rollover of the Company's fixed-rate 1-month FHLB or another fixed rate advance monthly until the swap matures. The hedge was determined to be effective during the periods presented. The Company expects the hedge to remain effective during the remaining term of the swap.

A cash flow hedge interest rate swap that matures on February, 28 2028 had a notional amount of \$20.0 million as of December 31, 2024 and 2023. The risk management objective with respect to the cash flow hedge is to hedge the risk of variability in the Company's cash flows (future interest payments) attributable to changes in the 1-month compounded average SOFR rate pertaining to fluctuations in market interest rates on \$20.0 million of FHLB, brokered Certificate of Deposits or other fixed rate advances for that period. The objective of the hedge is to offset the variability of cash flows due to the rollover of the Company's fixed-rate 1-month FHLB or another fixed rate advance monthly until the swap matures. The hedge was determined to be effective during the periods presented. The Company expects the hedge to remain effective during the remaining term of the swap.

	2024		
	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified into Income (pre-tax)
Derivatives in Cash Flow Hedging Relationships			
Interest rate swap contracts		Interest income (expense)	
Effective Portion	\$ 780,085	Effective Portion	\$ 734,288
	2023		
	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income	Amount of Gain (Loss) Reclassified into Income (pre-tax)
Derivatives in Cash Flow Hedging Relationships			
Interest rate swap contracts		Interest income (expense)	
Effective Portion	\$ (1,059,442)	Effective Portion	\$ 534,786

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 23. Derivatives (continued)

	2024	2023
Notional Amount - Pay Fixed Swap	\$ 100,000,000	\$ 100,000,000
Weighted Average Fixed Pay Rate	4.43%	4.43%
Weighted Average 1 - month compounded average SOFR	5.17%	5.15%
Weighted average maturity in years	1.47	2.43

Note 24. Accumulated Other Comprehensive Loss

The following were changes in accumulated other comprehensive loss by component, net of tax, for the years ended December 31, 2024 and 2023:

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for- Sale Securities	Total
<u>Year Ended December 31, 2024</u>			
Beginning balance	\$ (801,892)	\$ (23,933,060)	\$ (24,734,952)
Other comprehensive income before reclassification, net of Amounts reclassified from accumulated other comprehensive loss, net of tax	1,138,384	1,119,396	2,257,780
	<u>(551,994)</u>	<u>44,276</u>	<u>(507,718)</u>
Net current period other comprehensive income	586,390	1,163,672	1,750,062
Ending balance	<u>(215,502)</u>	<u>(22,769,388)</u>	<u>(22,984,890)</u>
<u>Year Ended December 31, 2023</u>			
Beginning balance	\$ -	\$ (27,815,211)	\$ (27,815,211)
Other comprehensive income before reclassification, net of Amounts reclassified from accumulated other comprehensive loss, net of tax	(397,112)	3,872,104	3,474,992
	<u>(404,780)</u>	<u>10,047</u>	<u>(394,733)</u>
Net current period other comprehensive income	(801,892)	3,882,151	3,080,259
Ending balance	<u>(801,892)</u>	<u>(23,933,060)</u>	<u>(24,734,952)</u>

The following were significant amounts reclassified out of each component of accumulated other comprehensive loss for the years ended December 31, 2024, and 2023:

Details about Other Comprehensive Loss Components	Year Ended December 31, 2024	Year Ended December 31, 2023	Affected Line Item in the Statement Where Net Income is Presented
Realized gains on cash flow hedges	\$ (734,328)	\$ (534,786)	Interest expense - Other borrowings
	182,334	130,006	Income tax expense
	<u>(551,994)</u>	<u>(404,780)</u>	
Realized gains on available-for-sale securities	\$ -	\$ 3,423	Net gain on sale of investment securities available-for-sale
Reclassification adjustment for amortization of unrealized losses on securities available-for-sale transferred to held-to- maturity	\$ (58,901)	\$ (16,697)	Interest income - Securities held-to-maturity
	14,625	3,227	Income tax expense
	<u>44,276</u>	<u>10,047</u>	

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 25. South Atlantic Bancshares, Inc. (Parent Company Only)

Following is condensed financial information of South Atlantic Bancshares, Inc. (parent company only) as of and for the years ended December 31:

Condensed Balance Sheets

	<u>2024</u>	<u>2023</u>
Assets		
Cash	\$ 5,035,233	\$ 7,185,044
Investment in bank subsidiary	137,612,838	124,108,691
Loans	2,757,512	2,759,226
Other assets	288,127	387,340
Total assets	<u>\$ 145,693,710</u>	<u>\$ 134,440,301</u>
Liabilities and shareholders' equity		
Other liabilities	\$ 1,924,700	\$ 1,486,381
Subordinated debentures	30,000,000	30,000,000
Shareholders' equity	<u>113,769,010</u>	<u>102,953,920</u>
Total liabilities and shareholders' equity	<u>\$ 145,693,710</u>	<u>\$ 134,440,301</u>

Condensed Statements of Income

Income	<u>\$ 132,446</u>	<u>\$ 58,246</u>
Expenses:		
Salaries and benefits	582,774	549,936
Other	<u>1,248,366</u>	<u>1,221,005</u>
Total	<u>1,831,140</u>	<u>1,770,941</u>
Loss before income taxes and equity in undistributed income of banking subsidiary	(1,698,694)	(1,712,695)
Income tax benefit	-	326,404
Equity in income of banking subsidiary	<u>11,754,086</u>	<u>11,404,973</u>
Net income	<u>\$ 10,055,392</u>	<u>\$ 10,018,682</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Note 25. South Atlantic Bancshares, Inc. (Parent Company Only) (continued)

Condensed Statements of Cash Flows

	<u>2024</u>	<u>2023</u>
Operating activities		
Net income	\$ 10,055,392	\$ 10,018,682
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed income of banking subsidiary	(11,754,086)	(11,404,973)
Stock and warrant compensation expense	193,063	158,270
Contribution of treasury stock to ESOP plan	-	337,500
Increase (decrease) in accrued expenses and other liabilities	427,070	(226,491)
(Increase) decrease in other assets	99,213	(74,572)
Net cash used in operating activities	<u>(979,348)</u>	<u>(1,191,584)</u>
Investing activities:		
Net increase in investment in bank	-	(10,000,000)
Net decrease in loans	1,714	-
Net cash provided by (used in) investing activities	<u>1,714</u>	<u>(10,000,000)</u>
Financing activities:		
Proceeds from exercise of stock options	10,959	84,782
Payment of cash dividends	(757,360)	(753,607)
Purchase of treasury stock	(425,776)	(510,439)
Net cash used in financing activities	<u>(1,172,177)</u>	<u>(1,179,264)</u>
Net decrease in cash and cash equivalents	(2,149,811)	(12,370,848)
Cash, beginning of year	<u>7,185,044</u>	<u>19,555,892</u>
Cash, end of year	<u>\$ 5,035,233</u>	<u>\$ 7,185,044</u>

Note 26. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 10, 2025, the date the financial statements were available to be issued. No other subsequent events occurred requiring accrual or disclosure.

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