

Southern Financial Corporation

Report on Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

Southern Financial Corporation

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Independent Auditor's Report

Board of Directors
Southern Financial Corporation and Subsidiary
Duncan, South Carolina

Opinion

We have audited the consolidated financial statements of Southern Financial Corporation and Subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income/(loss), 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 their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 available to be issued.

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.

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

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, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- 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.



Greenville, South Carolina
March 14, 2025

Southern Financial Corporation

Consolidated Statements of Financial Condition

As of December 31, 2024 and 2023 (Dollars in Thousands except per share data)

	2024	2023
Assets		
Cash and due from banks	\$ 3,689	\$ 2,565
Interest bearing bank balances	2,308	2,618
Federal funds sold	14,050	4,151
Total cash and cash equivalents	<u>20,047</u>	<u>9,334</u>
Securities available-for-sale (amortized cost of \$99,397 and \$83,486, respectively)	94,448	79,331
Restricted equity securities	1,401	727
Loans receivable	197,599	183,992
Less allowance for credit losses	(2,065)	(2,204)
Loans, net	<u>195,534</u>	<u>181,788</u>
Accrued interest receivable	1,389	1,129
Premises and equipment	15,666	15,213
Bank owned life insurance	4,470	4,328
Deferred tax assets, net of deferred tax liabilities	1,424	1,617
Other assets	3,332	1,136
Total assets	<u>\$ 337,711</u>	<u>\$ 294,603</u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 39,437	\$ 26,565
Interest-bearing	246,453	229,916
Total deposits	<u>285,890</u>	<u>256,481</u>
Federal Home Loan Bank Advances - short term	-	2,000
Federal Home Loan Bank Advances - long term	20,000	10,000
Subordinated debt	4,949	4,919
Accrued expenses and other liabilities	1,789	2,286
Borrower's escrow payable	121	117
Total liabilities	<u>312,749</u>	<u>275,803</u>
Commitments & Contingencies (Notes 7, 8, 9 and 13)		
Shareholders' Equity		
Preferred stock - \$0.01 par value, authorized 1,000,000 shares, 4,000 shares and 2,250 shares issued and outstanding at December 31, 2024 and December 31, 2023, respectively	-	-
Common stock - \$0.01 par value, authorized 10,000,000 shares, 3,380,311 and 2,802,568 shares issued and outstanding at December 31, 2024 and December 31, 2023, respectively	34	28
Additional paid-in capital	19,798	14,619
Retained earnings	8,408	8,175
Accumulated other comprehensive loss	(3,278)	(4,022)
Total shareholders' equity	<u>24,962</u>	<u>18,800</u>
Total liabilities and shareholders' equity	<u>\$ 337,711</u>	<u>\$ 294,603</u>

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Income

For the years ended December 31, 2024 and 2023 (Dollars in Thousands except per share data)

	<u>2024</u>	<u>2023</u>
Interest income		
Loans, including fees	\$ 13,153	\$ 10,136
Securities available-for-sale	4,804	2,849
Federal funds sold	462	466
Other bank deposits	161	68
Dividends	70	18
Total interest income	<u>18,650</u>	<u>13,537</u>
Interest expense		
Deposits	9,091	5,587
Borrowings	856	466
Total interest expense	<u>9,947</u>	<u>6,053</u>
Net interest income		
Provision for credit losses	8,703	7,484
Net interest income after provision for credit losses	<u>455</u>	<u>600</u>
Noninterest income		
Customer service fees	320	266
Mortgage banking income	215	218
Net gain/(loss) on investment securities transactions	17	(13)
Other	292	140
Total noninterest income	<u>844</u>	<u>611</u>
Noninterest expenses		
Salaries and employee benefits	5,161	4,497
Occupancy expenses	1,437	1,066
Data processing	475	447
Advertising	274	238
Deposit insurance premiums	244	187
Other	1,242	844
Total noninterest expenses	<u>8,833</u>	<u>7,279</u>
Income before income taxes	259	216
Provision for income taxes		
	26	66
Net income per common share	<u>\$ 233</u>	<u>\$ 150</u>
Earnings per common share		
Basic	<u>\$ 0.07</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.07</u>	<u>\$ 0.05</u>
Weighted average common shares outstanding		
Basic	<u>3,402,180</u>	<u>3,026,650</u>
Diluted	<u>3,402,180</u>	<u>3,033,924</u>

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Comprehensive Income/(Loss)

For the years ended December 31, 2024 and 2023 (Dollars in Thousands)

	<u>2024</u>	<u>2023</u>
Net income	\$ 233	\$ 150
Other comprehensive income/(loss):		
Investment securities available-for-sale:		
Unrealized holding gains/(losses) on securities available-for-sale arising during the period, net	759	(13)
Actual gains/(losses) reclassified to net income	5	(22)
Related income tax impact	(196)	10
Derivatives & hedges:		
Unrealized holding gains/(losses) on cash flow hedges arising during the period, net	233	(444)
Related income tax impact	(57)	107
Other comprehensive gain/(loss)	744	(362)
Comprehensive income/(loss)	<u>\$ 977</u>	<u>\$ (212)</u>

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2024 and 2023 (Dollars in Thousands except per share data)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2022	2,250	\$ -	2,797,490	\$ 28	\$ 14,474	\$ 8,428	\$ (3,660)	\$ 19,270
Net income	-	-	-	-	-	150	-	150
Cumulative effect of change in accounting principles	-	-	-	-	-	(403)	-	(403)
Stock issued in lieu of compensation	-	-	5,078	-	46	-	-	46
Stock based compensation	-	-	-	-	99	-	-	99
Other comprehensive loss	-	-	-	-	-	-	(362)	(362)
Balance, December 31, 2023	<u>2,250</u>	<u>-</u>	<u>2,802,568</u>	<u>28</u>	<u>14,619</u>	<u>8,175</u>	<u>(4,022)</u>	<u>18,800</u>
Net income	-	-	-	-	-	233	-	233
Proceeds from sale of common stock	-	-	750,000	8	5,046	-	-	5,054
Conversion of common stock to restricted preferred stock	1,750	-	(175,000)	(2)	-	-	-	(2)
Stock issued in lieu of compensation	-	-	2,743	-	26	-	-	26
Stock based compensation	-	-	-	-	107	-	-	107
Other comprehensive income	-	-	-	-	-	-	744	744
Balance, December 31, 2024	<u>4,000</u>	<u>-</u>	<u>3,380,311</u>	<u>\$ 34</u>	<u>\$ 19,798</u>	<u>\$ 8,408</u>	<u>\$ (3,278)</u>	<u>\$ 24,962</u>

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2024 and 2023 (Dollars in Thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Net income	\$ 233	\$ 150
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	455	600
Depreciation	640	355
Net accretion of investment securities	(285)	(228)
Amortization of debt issuance costs	30	29
Gain on sale of foreclosed real estate	(10)	(14)
(Gain)/loss on disposal of fixed asset	(126)	2
Net (gain)/loss on investment securities transactions	(17)	13
Increase in cash surrender value of BOLI	(142)	(120)
Deferred tax (benefit)/expense	(59)	13
Stock based compensation	107	99
Stock issued in lieu of compensation	26	46
Increase in operating assets:		
Accrued interest receivable	(260)	(440)
Other assets	(24)	(693)
(Decrease)/increase in operating liabilities:		
Accrued interest payable	(4)	273
Accrued expenses and other liabilities	226	72
Net cash provided by operating activities	<u>790</u>	<u>157</u>
Cash flows from investing activities		
Proceeds from sales, calls and maturities of investment securities:		
Available-for-sale	6,265	2,758
Purchases of investment securities:		
Available-for-sale	(32,250)	(37,807)
Proceeds from principal paydowns of available-for-sale securities	10,376	4,769
Purchase of restricted equity stock	(674)	(654)
Net increase in loans	(15,111)	(32,313)
Proceeds from sale of foreclosed real estate	144	172
Purchases of property and equipment	(1,288)	(8,023)
Net cash used for investing activities	<u>(32,538)</u>	<u>(71,098)</u>

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2024 and 2023 (Dollars in Thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from financing activities		
Net increase in demand deposits, NOW accounts, money market deposit accounts and savings accounts	41,178	17,462
Net (decrease)/increase in time deposits	(11,769)	39,690
Proceeds from Federal Home Loan Bank advances	8,000	12,000
Net proceeds from issuance of common stock	5,052	-
Net cash provided by financing activities	<u>42,461</u>	<u>69,152</u>
Net (decrease) increase in cash and cash equivalents	10,713	(1,789)
Cash and cash equivalents, beginning of year	9,334	11,123
Cash and cash equivalents, end of year	<u>\$ 20,047</u>	<u>\$ 9,334</u>
Cash paid during the year for		
Interest	\$ 9,951	\$ 5,780
Income taxes, net of refunds	5	146
Noncash investing and financing activities		
(Increase)/decrease in accumulated other comprehensive income/(loss):		
Investment securities available-for-sale	\$ 568	\$ (25)
Derivatives and hedges	176	(337)
Transfers of loans to foreclosed real estate	898	-
Loans charged off	607	437
Adoption of CECL	-	537

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies

Southern Financial Corporation (the “Company”) is a South Carolina corporation that owns 100% of the capital stock of Southern Bank (the “Bank”). The Bank’s primary regulator is the Federal Deposit Insurance Corporation (the “FDIC”). The Bank operates under a State of Georgia charter and is therefore also regulated and examined by the Georgia Department of Banking and Finance. The Bank is primarily engaged in the business of accepting demand and savings deposits insured by the FDIC, and providing commercial, consumer and mortgage loans to its customers.

Basis of Presentation:

The accompanying consolidated financial statements present the accounts of the Company, a one-bank holding company, and its wholly owned subsidiary, Southern Bank (the Bank). All material inter-company transactions have been eliminated in consolidation. The following accounting and reporting policies conform to accounting principles generally accepted in the United States of America.

Business Segments:

The Company, through the Bank, provides full banking services to individuals and companies in the following counties in Georgia: Burke, Jenkins, Screven, Richmond, and Glascock. In South Carolina, the markets served include Greenville, Spartanburg and Aiken counties. While the Company’s management periodically reviews limited financial information for these markets, that information is incomplete because it does not include an allocation of overhead. Accordingly, the Company’s various operating markets are not considered by management to be separate operating and reporting segments.

Use of estimates:

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, and the valuation of deferred tax assets.

Risk 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 bases, than its interest-earning assets. Credit risk is the risk of default on the Company’s loan and investment portfolios that result from a borrower’s inability or unwillingness to make contractual payments. Market risk reflects changes in the value of collateral underlying securities, loans receivable and the valuation of real estate held by the Company.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Risk and uncertainties, continued:

The Company is subject to the regulations of various government agencies (regulatory risk). These regulations can 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.

As of December 31, 2024, the Company's and the Bank's capital ratios were in excess of all regulatory requirements. While management believes that the Company and the Bank have sufficient capital to withstand an extended economic recession, our regulatory capital ratios could be adversely impacted by future credit losses.

Most of the Company's business activity is with customers located in the Bank's market area, Southeastern Georgia and the upstate of South Carolina. Investment in state and municipal securities primarily are with governmental entities within Georgia and South Carolina. The Bank's loan portfolio has a concentration of real estate loans. As of December 31, 2024 and 2023, real estate loans represented 75% and 71% of total loans, respectively. However, the borrowers' ability to repay their loans is not dependent on any specific economic sector.

The distribution of commitments to extend credit approximated the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The contractual amounts of credit-related financial instruments, such as commitments to extend credit and letters of credit, represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults, and the value of any existing collateral becomes worthless.

The Bank maintains cash balances and Federal Funds balances with five financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250. Uninsured balances aggregate \$17,222 at December 31, 2024 and \$6,619 at December 31, 2023.

The Bank also maintains lines of credit for Federal Funds Purchased in the total amount of \$22,000 with four different banks. At December 31, 2024 and 2023, no amounts were outstanding on these lines of credit.

The Bank also has access to the Federal Reserve Discount Window.

Subsequent events:

The Company has disclosed its investment portfolio position in Note 2. There has been no significant deterioration in the investment portfolio through the date the consolidated financial statements were issued.

Management has reviewed events occurring through March 14, 2025, the date the consolidated financial statements were available to be issued and has not identified any other subsequent events that have occurred requiring accrual or disclosure.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Cash and cash equivalents:

For purposes of the presentation in the consolidated statement of cash flows, cash and cash equivalents include amounts due from banks, interest-bearing bank balances and federal funds sold. Depository institutions are required to maintain reserve and clearing balances at the Federal Reserve Bank. Vault cash satisfied our daily reserve requirement as of December 31, 2024 and 2023.

Securities available-for-sale:

Debt securities are classified as "available-for-sale" ("AFS") and are reflected at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities unless they are callable. Gains and losses on the sale of AFS securities are determined using the specific identification method.

Restricted equity securities:

Included in other assets is restricted equity securities which consist of investments in the stock of the Federal Home Loan Bank of Atlanta ("FHLB") and First National Bankers Bank ("FNBB"). The Company is a member of the FHLB. As a requirement of membership, the Company invests in stock of FHLB. This investment amounted to \$1,156 and \$727 at December 31, 2024 and 2023, respectively.

FNBB is a nationally chartered banker's bank that does not compete for loans or deposits with its member banks, so it requires a stock investment in their cooperative model. During 2024, FNBB became the Company's correspondent bank. At December 31, 2024 and 2023, the investment in FNBB stock was \$245 and \$0, respectively.

Restricted equity securities are carried at cost and evaluated periodically for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Allowance for Credit Losses – Securities Available-for-Sale

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 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 losses is recognized in other comprehensive income.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Allowance for Credit Losses – Securities Available-for-Sale, continued

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expenses. Losses are charged against the allowance for credit losses when management believes an AFS security is confirmed to be uncollectible or when either criteria regarding intent or requirement to sell is met. At December 31, 2024, there was no allowance for credit loss related to the available-for-sale portfolio.

Accrued interest receivable on available-for-sale debt securities at December 31, 2024 and 2023 totaled \$638 and \$451, respectively and is included in accrued interest receivable, and was excluded from the estimate of credit losses.

Loans receivable:

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is secured by real estate loans in the Bank's primary trade areas of Southeast Georgia and Upstate South Carolina. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions of these areas.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

Accrued interest receivable related to loans amounted to \$696 and \$656 at December 31, 2024 and 2023, respectively, is included in accrued interest receivable on the balance sheet and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on the contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured. The amount of foregone interest during 2024 and 2023 was immaterial.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Allowance for Credit Losses - Loans:

The allowance for credit losses (ACL) is a valuation account that is deducted from the loan's amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged against the ACL when management believes the uncollectability 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 is 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 identified the following loan portfolio segments and calculates the allowance for credit losses for each pool using both the Open Pool and Weighted Average Remaining Maturity ("WARM") methodology.

- Residential mortgage – Residential mortgage loans are susceptible to weakening general economic conditions, increases in unemployment rates and declining real estate values.
- Residential Construction – Residential construction loans are susceptible to the same risk as residential mortgage loans, and changes in market demand for property leading to longer marketing times resulting in higher carrying costs and declining values.
- Commercial Construction – Commercial construction loans are susceptible to the same risk as residential mortgage loans, and other risks common to this category are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values.
- Owner occupied commercial real estate – Loans in this category are susceptible to the same risks as residential mortgage loans. In addition, they are susceptible to business failure and general economic conditions.
- Non-owner occupied commercial real estate – Loans in this category are susceptible to the same risks as owner occupied commercial real estate loans. They are also susceptible to declines in occupancy rates and lack of suitable alternative use for the property.
- Commercial & Industrial loans – Risks to this loan category include the inability to monitor the condition of the collateral, which often consists of inventory, accounts receivable and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.
- Consumer loans – Risks common to consumer loans include unemployment and changes in local economic conditions as well as the ability to monitor collateral consisting of personal property.

The WARM is calculated by considering the current balance and stated contractual maturity date of each loan in each pool. An annual prepayment rate is estimated by loan pool using guidance from the Federal Reserve and Federal Housing Finance Agency's quarterly prepayment monitoring report.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

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 and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

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 difficulties, the expected credit losses are based on the fair value of the collateral at the reporting date adjusted 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 Statements of Income. 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 statements of financial condition.

Premises and equipment:

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed principally on the straight-line method over the estimated useful lives of the assets. Upon retirement, sale or other disposition of premises and equipment, the cost and accumulated depreciation are eliminated from the accounts and the gain or loss is included in non interest income on the consolidated statements of income. Expenditures on maintenance and repairs are charged to operations as incurred.

Fixed assets in process include construction in process and bulk equipment purchases bought ahead of planned use to obtain a quantity discount. Construction in process includes the cost of construction or other direct costs attributable to the construction. No depreciation expense is taken on fixed assets in process until such times as the relevant assets are completed and put into use.

Leases

The Company is both a lessee and a lessor. The Company leases for its own use certain copiers and postage machines. The lease on the postage machine is for a period of 36 months, and the copiers are leased for 60 months. These payments are included in occupancy expenses for the years ended December 31, 2024 and 2023,

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Leases, continued

respectively. From time to time, the bank leases out unused space in its operations center. In August 2023, the Company entered into a seven-month lease agreement. In October 2024, the Company entered into another lease agreement, this one for nine months with two three-month optional extensions. These rental income payments offset occupancy expense.

Foreclosed real estate:

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in the Consolidated Statements of Income.

Bank owned life insurance:

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Deferred tax assets, net of deferred tax liabilities:

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company and the Bank file consolidated income tax returns. The Bank provides for income taxes on a separate return basis, and remits to the Company amounts determined to be currently payable. Management reviews all tax positions when preparing tax provisions and evaluating reasonableness of tax liabilities and assets in the financial statements. All provisions, liabilities and assets were reviewed for prior periods with open statutes of limitations to determine if they were adequate as required by FASB Codification Section 740, Income Taxes. Management did not identify any uncertain positions that would give rise to additional liabilities, penalties or interest. Therefore, no additional liabilities or assets were recorded in the financial statements for uncertain tax positions, nor for interest or penalties.

Derivative financial instruments and hedging activities:

The Company uses derivative instruments to minimize fluctuations in net income that are caused by interest rate volatility. The objective is to manage interest rate sensitivity by modifying the repricing of certain balance sheet assets and liabilities so that net interest income is not materially adversely affected by fluctuations in interest rates. The Company considers this a prudent interest rate risk management strategy. These interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Derivative financial instruments and hedging activities, continued:

The Company classifies its derivative financial instruments as either a hedge of an exposure to changes in the fair value of a recorded asset or liability ("fair value hedge") or a hedge of an exposure to changes in the cash flows of a recognized asset or liability ("cash flow hedge").

- Fair value hedges—the Company is exposed to changes in the fair value of certain of its fixed-rate securities available-for-sale due to changes in interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in interest rates. The Company considers these derivatives to be highly effective at achieving offsetting changes in fair values attributable to changes in interest rates. Therefore, changes in the fair value of these derivative instruments are recognized in other comprehensive income.
- Cash flow hedges—the Company enters cash flow hedges to mitigate exposure to the variability of future cash flows. The Company utilizes interest rate swaps to hedge the variability of cash flows due to changes in interest rates of certain of its variable rate customer deposits. The Company considers these derivatives to be highly effective at achieving offsetting changes in fair values attributable to changes in interest rates. Therefore, changes in the fair value of these derivative instruments are recognized in other comprehensive income.
- The Company assesses the effectiveness of the hedges at inception and periodically over the life of the hedge.

Private placement:

As part of a plan to modernize its facilities and expand its operations throughout South Carolina, the Company completed a private placement on July 26, 2024, for a total of 750,000 shares of the Company's common stock to accredited investors at \$6.75 per share. This transaction resulted in proceeds to the Company of \$5,052 net of costs of \$10.

Preferred Stock:

On September 16, 2022, the Company amended its Articles of Incorporation to provide for the issuance of Series A Non-Voting Convertible Perpetual Preferred Stock of up to 5,000 shares. Each share of Series A Preferred Stock is convertible to 100 shares of Common Stock anytime at the option of the holder provided the holder does not own more than 9.99% of common stock after the conversion. On September 28, 2022, the Company completed its first preferred stock offering by selling 2,250 shares to accredited investors at \$900 per share. This transaction resulted in proceeds to the Company of \$2,016 net of fees of \$9. On September 20, 2024, the Company completed a conversion of 175,000 common shares to 1,750 preferred shares.

Stock-based Compensation:

Included in salaries and employee benefits is the compensation cost related to common stock options which totaled \$107 and \$99 for the years ended December 31, 2024 and 2023, respectively. Compensation cost is recognized when these awards are issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. The calculated weighted-average grant date fair values used for calculating compensation expense were \$2.99 and \$2.84 per

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Stock-based Compensation, continued:

share for 2024 and 2023, respectively. Compensation cost is recognized over the required service period, generally defined as the vesting period. The Company's accounting policy is to recognize compensation cost net of estimated forfeitures.

Earnings per common share:

Basic earnings per common share is net income divided by the weighted average number of shares of common stock outstanding during the period plus preferred stock convertible to common stock. All shares issuable to participants in the Company's deferred compensation plan are participating securities for purposes of calculating basic earnings per share. Diluted earnings per common share include the dilutive effect of additional potential shares of common stock issuable under stock options.

Revenue from contracts with customers:

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, the Company has made no significant judgments in applying the revenue guidance prescribed in Topic 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Comprehensive income/(loss):

Comprehensive income/(loss) consists of net income for the current period and other comprehensive loss, defined as income, expenses, gains, and losses that bypass the consolidated statements of income and are reported directly in a separate consolidated statement of comprehensive loss. In this statement, the Company reports items of other comprehensive loss according to their nature. Total comprehensive loss is also reported in the consolidated statements of changes in shareholders' equity. The accumulated balance of accumulated other comprehensive loss is shown separately in the shareholders' equity section of the consolidated statements of financial condition. As of December 31, 2024, accumulated other comprehensive losses include unrealized holding losses on available-for-sale investment securities and unrealized holding losses on the interest rate swaps.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Advertising costs:

The Company follows the practice of expensing advertising costs as they are incurred. These amounts are disclosed as a separate line item on the Consolidated Statements of Income.

Reclassifications:

Certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation. These reclassifications had no material effect on previously reported results of operations or shareholders' equity.

Recently adopted Accounting Standard:

On January 1, 2023, the company adopted ASU No. 2016-13: *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard replaced the incurred loss methodology with an expected credit 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 costs, 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 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 an increase in the allowance for credit losses on loans of \$517 (which is presented as a reduction to net loans outstanding), and an increase in the allowance for credit losses on unfunded commitments of \$20 (which is recorded in other liabilities). The Company recorded a net decrease to retained earnings of \$403 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

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, 2023, the Company did not have any other 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.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Newly issued but not yet effective accounting standards:

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In December 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-09—*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The ASU improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. For public business entities, the standard is effective for annual periods beginning after December 15, 2024. For other entities, the amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

In March 2024, the FASB issued Accounting Standards Update 2024-01—*Compensation-Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards*. This ASU applies to entities that account for profits interest awards as compensation to employees or non-employees in return for goods or services. The Company does not give profits interest awards so the adoption of this standard will not have a material effect on its financial position, results of operations or cash flows.

In March 2024, the FASB also issued Accounting Standards Update 2024-02—*Codification Improvements-Amendments to Remove References to the Concepts Statements*. The purpose of this ASU is to eliminate confusion between authoritative and non-authoritative guidance. Concept statements are not authoritative so references to them will be removed from the codification. This ASU is effective for public business entities for fiscal years beginning after December 15, 2024. For all other entities, it is effective for fiscal years beginning after December 15, 2025. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

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.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 2. Securities Available-for-Sale

Debt and equity securities have been classified in the consolidated statements of financial condition according to management's intent. The carrying amounts of securities and their approximate fair values at December 31, 2024 and 2023 follow. There was no allowance for credit loss related to the available-for-sale portfolio as of December 31, 2024 or 2023.

	December 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency securities	\$ 9,331	\$ 22	\$ 1,076	\$ 8,277
U.S. Treasury securities	15,683	-	1,314	14,369
State and municipal securities - exempt	575	-	14	561
State and municipal securities - taxable	5,792	-	878	4,914
Mortgage-backed securities	43,775	315	1,614	42,476
Asset-backed securities	17,051	85	2	17,134
Corporate securities	7,190	9	482	6,717
	<u>\$ 99,397</u>	<u>\$ 431</u>	<u>\$ 5,380</u>	<u>\$ 94,448</u>
	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency securities	\$ 10,877	\$ 25	\$ 1,155	\$ 9,747
U.S. Treasury securities	1,030	-	106	924
State and municipal securities - exempt	601	-	12	589
State and municipal securities - taxable	5,762	-	854	4,908
Mortgage-backed securities	48,782	493	1,903	47,372
Asset-backed securities	10,462	5	11	10,456
Corporate securities	5,972	-	637	5,335
	<u>\$ 83,486</u>	<u>\$ 523</u>	<u>\$ 4,678</u>	<u>\$ 79,331</u>

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 2. Securities Available-for-Sale, Continued

The following tables show the gross unrealized losses and estimated fair value of available-for-sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous loss position at December 31, 2024 and 2023.

December 31, 2024	Less Than 12 Months			12 Months or More			Total		
	#	Estimated Fair Value	Unrealized Losses	#	Estimated Fair Value	Unrealized Losses	#	Estimated Fair Value	Unrealized Losses
U.S. Agency	1	\$ 121	\$ 1	18	\$ 6,460	\$ 1,075	19	\$ 6,581	\$ 1,076
U.S. Treasuries	3	13,442	1,217	2	927	97	5	14,369	1,314
State & municipal-exempt	-	-	-	2	361	14	2	361	14
State & municipal-taxable	-	-	-	9	4,914	878	9	4,914	878
Mortgage-backed	6	4,508	73	17	12,154	1,541	23	16,662	1,614
Asset-backed	1	2,011	2	-	-	-	1	2,011	2
Corporate	<u>1</u>	<u>431</u>	<u>16</u>	<u>17</u>	<u>4,026</u>	<u>466</u>	<u>18</u>	<u>4,457</u>	<u>482</u>
Total	<u>12</u>	<u>\$ 20,513</u>	<u>\$ 1,309</u>	<u>65</u>	<u>\$ 28,842</u>	<u>\$ 4,071</u>	<u>77</u>	<u>\$ 49,355</u>	<u>\$ 5,380</u>

December 31, 2023	Less Than 12 Months			12 Months or More			Total		
	#	Estimated Fair Value	Unrealized Losses	#	Estimated Fair Value	Unrealized Losses	#	Estimated Fair Value	Unrealized Losses
U.S. Agency	1	\$ 498	\$ 1	19	\$ 6,881	\$ 1,154	20	\$ 7,379	\$ 1,155
U.S. Treasuries	-	-	-	2	924	106	2	924	106
State & municipal-exempt	1	179	1	1	210	11	2	389	12
State & municipal-taxable	-	-	-	9	4,908	854	9	4,908	854
Mortgage-backed	17	15,697	161	19	14,927	1,742	36	30,624	1,903
Asset-backed	4	6,584	11	-	-	-	4	6,584	11
Corporate	<u>3</u>	<u>658</u>	<u>78</u>	<u>16</u>	<u>3,677</u>	<u>559</u>	<u>19</u>	<u>4,335</u>	<u>637</u>
Total	<u>26</u>	<u>\$ 23,616</u>	<u>\$ 252</u>	<u>66</u>	<u>\$ 31,527</u>	<u>\$ 4,426</u>	<u>92</u>	<u>\$ 55,143</u>	<u>\$ 4,678</u>

The unrealized losses shown above have not been recognized into income because these securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and/or have a long history of no credit losses. The issuers continue to make timely interest payments where applicable. Management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions, not because of adverse conditions specifically related to any security, industry or geographical area. The securities have not been downgraded by a rating agency as of the date of this annual report. The fair value is expected to recover as the securities approach maturity.

At December 31, 2024 and 2023, securities with a carrying value of \$16,605 and \$13,602, respectively were pledged to secure public deposits and for other purposes as required or permitted by law. At December 31, 2024 and 2023, securities with a carrying value of \$10,224 and \$11,187, respectively, were pledged to the Federal Home Loan Bank line of credit.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 2. Securities Available-for-Sale, Continued

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2024 follow:

	<u>December 31, 2024</u>	
	<u>Available-for-sale securities</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ 2,506	\$ 2,515
Due after one year through five years	39,607	38,905
Due after five years through ten years	32,826	30,615
Due after ten years	<u>24,458</u>	<u>22,413</u>
	<u>\$ 99,397</u>	<u>\$ 94,448</u>

Proceeds from sales, calls and maturities of available-for-sale securities totaled \$6,265 during 2024. Of this amount, the Company sold \$3,948 of securities with no gain or loss recognized. Another \$2,317 matured or was called at a gross realized gain of \$17.

Proceeds from sales, calls and maturities of available-for-sale securities totaled \$2,758 during 2023. Of this amount, the Company sold \$648 of securities at a gross realized gain of \$39 and sold \$2,075 of securities at a gross realized loss of \$52. Another \$35 was called with no gain or loss recognized.

Note 3. Loans and Allowance for Credit Losses

Loans by Major Category

The following is a summary of the major categories of total loans outstanding shown net of unamortized deferred loan costs which are recorded net of unaccrued deferred loan origination fees:

	<u>2024</u>	<u>2023</u>
Construction & land ("Construction")	\$ 16,649	\$ 28,924
Farmland	2,206	1,421
Residential real estate ("Real estate")	41,539	40,230
Multi-family real estate ("Multifamily")	2,747	2,502
Commercial real estate ("Commercial RE")	104,604	88,185
Commercial & industrial ("C&I")	26,633	15,841
Consumer	<u>3,221</u>	<u>6,889</u>
Total loans	197,599	183,992
Less allowance for credit losses	<u>2,065</u>	<u>2,204</u>
Total loans, net	<u>\$ 195,534</u>	<u>\$ 181,788</u>

At December 31, 2024 residential real estate loans with a carrying value of \$8,437 and commercial real estate loans with a carrying value of \$37,065 were pledged to the FHLB as collateral for the bank's line of credit.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Delinquency Disclosures

The following table presents an analysis of past-due loans as of December 31, 2024:

	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 Days or More Past Due and Still Accruing	Non- accrual Loans	Current Loans	Total Loans
Construction & land	\$ 9	\$ -	\$ -	\$ 25	\$ 16,615	\$ 16,649
Farmland	-	146	-	-	2,060	2,206
Residential real estate	545	202	-	343	40,449	41,539
Multi-family real estate	-	-	-	-	2,747	2,747
Commercial real estate	31	-	-	-	104,573	104,604
Commercial & industrial	20	16	-	228	26,369	26,633
Consumer	149	9	-	85	2,978	3,221
Total	<u>\$ 754</u>	<u>\$ 373</u>	<u>\$ -</u>	<u>\$ 681</u>	<u>\$ 195,791</u>	<u>\$ 197,599</u>

The following table presents an analysis of past-due loans as of December 31, 2023:

	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 Days or More Past Due and Still Accruing	Non- accrual Loans	Current Loans	Total Loans
Construction & land	\$ 56	\$ -	\$ -	\$ -	\$ 28,868	\$ 28,924
Farmland	-	152	-	-	1,269	1,421
Residential real estate	733	435	-	865	38,197	40,230
Multi-family real estate	-	-	-	-	2,502	2,502
Commercial real estate	324	-	-	535	87,326	88,185
Commercial & industrial	26	42	-	280	15,493	15,841
Consumer	156	32	-	59	6,642	6,889
Total	<u>\$ 1,295</u>	<u>\$ 661</u>	<u>\$ -</u>	<u>\$ 1,739</u>	<u>\$ 180,297</u>	<u>\$ 183,992</u>

Modifications Made to Borrowers Experiencing Financial Difficulties

The Company made no modifications to borrowers experiencing financial difficulties during 2024 or 2023.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Risk Ratings and Vintage Disclosures:

The Company categorizes loans receivable into risk categories based on common credit quality indicators such as: current financial information, historical payment experience, credit documentation, public information, and current industry and economic trends among other factors. For collateralized loans, the Company also looks at the value of the collateral and the debt-to-value ratios. Based on this analysis, the Company individually classifies the loans as to credit risk. This analysis is performed on a continual basis. The Company's nine definitions for its risk ratings are described below along with their presentation in this footnote.

- Included in the "Pass" line in the upcoming vintage disclosure table are the following internal categories:
 - Virtually No Risk, Minimal Credit Risk, Satisfactory Credit Risk and Acceptable Credit Risk – Loans in these four categories are considered to have a low probability of default and do not meet the criteria of the risk categories below.
 - Weak Pass - This grade is given to loans that show signs of weakness in either adequate sources of repayment or collateral but have demonstrated mitigating factors that minimize the risk of delinquency or loss. Payments have generally been made as agreed with only minor and isolated delinquencies.
- Special Mention – Loans with underwriting guideline tolerances or exceptions and with no mitigating factors. Loans where adverse economic conditions that develop after the loan origination that do not jeopardize liquidation of the debt but do substantially increase the level of risk may also warrant this rating.
- Substandard - A Substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged (if any). Loans classified as Substandard must have a well-defined weakness (or weaknesses) that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Loans consistently not meeting the repayment schedule are downgraded to this classification.
- The following internal categories are rarely used as loans are usually charged off before they reach one of these two categories.
 - Doubtful - Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full based on currently existing facts, conditions, and values highly questionable and improbable. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off. There are no loans in this category at December 31, 2023.
 - Loss – loans categorized as Loss have the same characteristics as Doubtful; however probability of loss is certain. Loans classified as Loss are generally charged off within 30 days of receiving this risk rating. There are no loans in this category at December 31, 2024 or 2023.

Southern Financial Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023 (Dollars in Thousands)

Note 3. Loans and Allowance for Credit Losses, Continued

Risk Ratings and Vintage Disclosures, Continued :

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2024:

	2024	2023	2022	2021	2020	Prior	Revolving	Total
Construction & land								
Pass	\$ 6,696	\$ 6,840	\$ 1,558	\$ 331	\$ 319	\$ 429	\$ 263	\$ 16,436
Special Mention	-	-	188	-	-	-	-	188
Substandard	-	-	25	-	-	-	-	25
Doubtful	-	-	-	-	-	-	-	-
Total Construction & land	\$ 6,696	\$ 6,840	\$ 1,771	\$ 331	\$ 319	\$ 429	\$ 263	\$ 16,649
Current period gross write-offs	-	-	-	-	-	-	-	-
Farmland								
Pass	\$ 1,053	\$ 722	\$ -	\$ 12	\$ 58	\$ 216	\$ -	\$ 2,061
Special Mention	-	-	-	-	-	145	-	145
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Farmland	\$ 1,053	\$ 722	\$ -	\$ 12	\$ 58	\$ 361	\$ -	\$ 2,206
Current period gross write-offs	-	-	-	-	-	-	-	-
Residential real estate								
Pass	\$ 7,731	\$ 4,346	\$ 12,204	\$ 9,772	\$ 2,552	\$ 2,828	\$ 969	\$ 40,402
Special Mention	-	-	58	342	-	234	-	634
Substandard	34	50	-	-	96	323	-	503
Doubtful	-	-	-	-	-	-	-	-
Total Residential real estate	\$ 7,765	\$ 4,396	\$ 12,262	\$ 10,114	\$ 2,648	\$ 3,385	\$ 969	\$ 41,539
Current period gross write-offs	-	-	-	-	-	-	-	-
Multifamily								
Pass	\$ -	\$ 400	\$ 1,263	\$ 1,084	\$ -	\$ -	\$ -	\$ 2,747
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Multifamily	\$ -	\$ 400	\$ 1,263	\$ 1,084	\$ -	\$ -	\$ -	\$ 2,747
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate								
Pass	\$ 25,617	\$ 22,456	\$ 27,576	\$ 13,352	\$ 6,230	\$ 1,410	\$ 6,548	\$ 103,189
Special Mention	-	-	-	1,415	-	-	-	1,415
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Commercial real estate	\$ 25,617	\$ 22,456	\$ 27,576	\$ 14,767	\$ 6,230	\$ 1,410	\$ 6,548	\$ 104,604
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial & Industrial								
Pass	\$ 9,451	\$ 1,934	\$ 4,850	\$ 3,662	\$ -	\$ -	\$ 6,402	\$ 26,299
Special Mention	-	-	7	-	-	-	-	7
Substandard	-	-	287	-	-	-	-	287
Doubtful	40	-	-	-	-	-	-	40
Total Commercial & Industrial	\$ 9,491	\$ 1,934	\$ 5,144	\$ 3,662	\$ -	\$ -	\$ 6,402	\$ 26,633
Current period gross write-offs	-	-	516	-	-	-	-	516
Consumer								
Pass	\$ 498	\$ 272	\$ 2,016	\$ 142	\$ 113	\$ 1	\$ 80	\$ 3,122
Special Mention	-	8	5	-	1	-	-	14
Substandard	-	4	48	25	8	-	-	85
Doubtful	-	-	-	-	-	-	-	-
Total Consumer	\$ 498	\$ 284	\$ 2,069	\$ 167	\$ 122	\$ 1	\$ 80	\$ 3,221
Current period gross write-offs	21	16	32	22	-	-	-	91

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Notes to Consolidated Financial Statements

For the years ended December 31, 2024 and 2023 (Dollars in Thousands)

Note 3. Loans and Allowance for Credit Losses, Continued

Risk Ratings and Vintage Disclosures, Continued :

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023:

	2023	2022	2021	2020	2019	Prior	Revolving	Total
Construction & land								
Pass	\$ 7,336	\$ 5,569	\$ 2,980	\$ 368	\$ 29	\$ 533	\$ 12,109	\$ 28,924
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction & land	\$ 7,336	\$ 5,569	\$ 2,980	\$ 368	\$ 29	\$ 533	\$ 12,109	\$ 28,924
Current period gross write-offs	-	-	-	-	-	-	-	-
Farmland								
Pass	\$ 960	\$ -	\$ 18	\$ 68	\$ -	\$ 375	\$ -	\$ 1,421
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Farmland	\$ 960	\$ -	\$ 18	\$ 68	\$ -	\$ 375	\$ -	\$ 1,421
Current period gross write-offs	-	-	-	-	-	-	-	-
Residential real estate								
Pass	\$ 5,333	\$ 12,994	\$ 12,372	\$ 2,942	\$ 1,187	\$ 3,403	\$ 796	\$ 39,027
Special Mention	-	-	-	93	3	209	-	305
Substandard	-	-	172	-	-	726	-	898
Doubtful	-	-	-	-	-	-	-	-
Total Residential real estate	\$ 5,333	\$ 12,994	\$ 12,544	\$ 3,035	\$ 1,190	\$ 4,338	\$ 796	\$ 40,230
Current period gross write-offs	-	-	-	-	-	-	-	-
Multifamily								
Pass	\$ -	\$ 1,306	\$ 1,133	\$ -	\$ -	\$ 63	\$ -	\$ 2,502
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Multifamily	\$ -	\$ 1,306	\$ 1,133	\$ -	\$ -	\$ 63	\$ -	\$ 2,502
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate								
Pass	\$ 20,791	\$ 27,552	\$ 22,342	\$ 6,938	\$ 688	\$ 1,019	\$ 8,320	\$ 87,650
Special Mention	-	-	535	-	-	-	-	535
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Commercial real estate	\$ 20,791	\$ 27,552	\$ 22,877	\$ 6,938	\$ 688	\$ 1,019	\$ 8,320	\$ 88,185
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial & Industrial								
Pass	\$ 3,068	\$ 5,303	\$ 4,076	\$ 143	\$ 4	\$ -	\$ 2,476	\$ 15,070
Special Mention	-	534	92	-	-	-	-	626
Substandard	-	145	-	-	-	-	-	145
Doubtful	-	-	-	-	-	-	-	-
Total Commercial & Industrial	\$ 3,068	\$ 5,982	\$ 4,168	\$ 143	\$ 4	\$ -	\$ 2,476	\$ 15,841
Current period gross write-offs	-	372	-	-	-	-	-	372
Consumer								
Pass	\$ 929	\$ 5,079	\$ 443	\$ 346	\$ 19	\$ 13	\$ -	\$ 6,829
Special Mention	-	-	17	7	-	-	-	24
Substandard	-	31	5	-	-	-	-	36
Doubtful	-	-	-	-	-	-	-	-
Total Consumer	\$ 929	\$ 5,110	\$ 465	\$ 353	\$ 19	\$ 13	\$ -	\$ 6,889
Current period gross write-offs	23	13	22	2	5	-	-	65

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Nonaccrual Disclosures

The following table is a summary of the Company's nonaccrual loans by major categories and their related allowance for the periods indicated.

	December 31, 2024			December 31, 2023		
	No Allowance	With an Allowance	Total	No Allowance	With an Allowance	Total
Nonaccrual loans:						
Construction & land	\$ 25	\$ -	\$ 25	\$ -	\$ -	\$ -
Farmland	-	-	-	-	-	-
Residential real estate	343	-	343	-	865	865
Multifamily real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	-	535	535
Commercial	56	172	228	-	280	280
Consumer	85	-	85	-	59	59
Total	<u>\$ 509</u>	<u>\$ 172</u>	<u>\$ 681</u>	<u>\$ -</u>	<u>\$ 1,739</u>	<u>\$ 1,739</u>

The Company recognized no income on nonaccrual loans during the year ended December 31, 2024, or 2023. The amount of foregone interest income during 2024 and 2023 was immaterial.

Collateral Dependent Disclosures

The Company has certain loans for which the repayment is expected to be provided substantially through the operations or sale of the collateral as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral dependent loans.

- Construction and land loans are typically secured by first mortgages on the land and the homes under construction. Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Commercial real estate loans can be secured by either owner occupied commercial real estate or non-owner occupied commercial real estate. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by the operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Commercial and industrial loans are typically secured by equipment, receivables and/or commercial automobiles.
- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles, and other personal property. Some consumer loans are unsecured and have no underlying collateral.

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Collateral Dependent Disclosures, continued

The following table details the amortized cost of nonaccrual collateral dependent loans at December 31.

	<u>2024</u>	<u>2023</u>
Construction and land	\$ 25	\$ -
Residential real estate	343	864
Commercial real estate	-	535
Commercial & industrial	<u>228</u>	<u>280</u>
Total collateral dependent loans on nonaccrual	<u>\$ 596</u>	<u>\$ 1,679</u>

Allowance for Credit Losses Disclosures

The following table summarizes the activity related to the allowance for credit losses for the years ended December 31, 2024, and 2023.

	<u>Construction and Land</u>		<u>Farmland</u>		<u>Residential Real Estate</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Available for credit losses:						
Beginning balance	\$ 176	\$ 157	\$ 12	\$ 7	\$ 358	\$ 381
Adoption of CECL	-	(63)	-	(1)	-	(84)
Chargeoffs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provisions	(82)	82	3	6	(94)	61
Total	<u>\$ 94</u>	<u>\$ 176</u>	<u>\$ 15</u>	<u>\$ 12</u>	<u>\$ 264</u>	<u>\$ 358</u>
	<u>Multi-Family Real Estate</u>		<u>Commercial Real Estate</u>		<u>Commercial & Industrial</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 15	\$ 44	\$ 772	\$ 513	\$ 700	\$ 149
Adoption of CECL	-	83	-	575	-	23
Chargeoffs	-	-	-	-	(516)	(372)
Recoveries	-	-	-	-	1	-
Provisions	-	(112)	(90)	(316)	612	900
Total	<u>\$ 15</u>	<u>\$ 15</u>	<u>\$ 682</u>	<u>\$ 772</u>	<u>\$ 797</u>	<u>\$ 700</u>
	<u>Consumer</u>		<u>Unallocated</u>		<u>Totals</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 171	\$ 142	\$ -	\$ 133	\$ 2,204	\$ 1,526
Adoption of CECL	-	116	-	(132)	-	517
Chargeoffs	(91)	(65)	-	-	(607)	(437)
Recoveries	16	13	-	-	17	13
Provisions	(6)	(35)	108	(1)	451	585
Total	<u>\$ 90</u>	<u>\$ 171</u>	<u>\$ 108</u>	<u>\$ -</u>	<u>\$ 2,065</u>	<u>\$ 2,204</u>

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Allowance for Credit Losses Disclosures, continued

The \$516 in commercial loans charged off during 2024 is attributable to one relationship on a participated loan where the borrower was experiencing financial difficulties. We also charged off smaller amounts of several consumer loans that were collateralized by trucks.

Unfunded Commitments

The Company estimates expected credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The allowance for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes the 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.

	<u>Unfunded Commitments</u>	
	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 35	\$ -
Adoption of CECL	-	20
Chargeoffs	-	-
Recoveries	-	-
Provisions	<u>5</u>	<u>15</u>
Total	<u>\$ 40</u>	<u>\$ 35</u>

Loan Maturity Disclosures

Scheduled maturities and next repricing date of loans at December 31, 2024 and 2023 are as follows:

	<u>Over one year</u>			<u>Total</u>
	<u>Within One year</u>	<u>through five years</u>	<u>Greater than five years</u>	
2024				
Variable rate loans	\$ 17,462	\$ 21,998	\$ 15,484	\$ 54,944
Fixed rate loans	<u>22,233</u>	<u>105,537</u>	<u>14,885</u>	<u>142,655</u>
	<u>\$ 39,695</u>	<u>\$ 127,535</u>	<u>\$ 30,369</u>	<u>\$ 197,599</u>
2023				
Variable rate loans	\$ 36,737	\$ 7,932	\$ 243	\$ 44,912
Fixed rate loans	<u>13,302</u>	<u>109,043</u>	<u>16,735</u>	<u>139,080</u>
	<u>\$ 50,039</u>	<u>\$ 116,975</u>	<u>\$ 16,978</u>	<u>\$ 183,992</u>

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 4. Premises and Equipment

Components of premises and equipment included in the consolidated statements of financial condition at December 31, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Land and land improvements	\$ 4,680	\$ 4,684
Buildings and building improvements	10,726	5,623
Furniture and equipment	2,561	1,654
Fixed assets in process	<u>5</u>	<u>5,237</u>
Total cost	17,972	17,198
Less: accumulated depreciation	<u>2,306</u>	<u>1,985</u>
Total premises and equipment, net of accumulated depreciation	<u>\$ 15,666</u>	<u>\$ 15,213</u>

Fixed assets in process at December 31, 2024 consisted primarily of costs associated with information technology projects that will be completed in 2025. Fixed assets in process at December 31, 2023 consisted primarily of costs associated with the purchase price and renovations of our operations center which was completed in early 2024.

During 2024, the company closed its limited service branch in Waynesboro and sold the assets for \$234 resulting in gain on disposal of \$126. During 2023, the company disposed of \$3 in outdated equipment resulting in loss on disposal of \$2.

Depreciation charged to occupancy expense for the years ended December 31, 2024, and 2023 for depreciation of property and equipment aggregated to \$640 and \$355, respectively using the straight-line method based on the useful lives below:

	<u>Life in Years</u>
Furniture and equipment	3 to 10
Land improvements and building improvements	15
Buildings	39

The Company had no material equipment leases as of December 31, 2024, or 2023. The Company owns all land and buildings. Included in accrued expenses and other liabilities at December 31, 2024 is \$23 of accrued property taxes related to the Company's real and personal property reported above. These estimates are based on preliminary notices from the taxing authorities and previous experiences. All such taxes were paid before the printing of this annual report.

Note 5. Foreclosed Real Estate

Activity in foreclosed real estate was as follows:

	<u>2024</u>	<u>2023</u>
Balance net of valuation allowance, beginning of year	\$ 115	\$ 273
Foreclosures	898	-
Sales	(144)	(172)
Write downs	-	-
Gain/(loss) on disposition	<u>10</u>	<u>14</u>
Balance, net of valuation allowance, end of year	<u>\$ 879</u>	<u>\$ 115</u>

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 5. Foreclosed Real Estate, Continued

The valuation allowance balance was \$25 at December 31, 2024 and 2023. Expenses applicable to foreclosed assets include the following:

	<u>2024</u>	<u>2023</u>
Net gain on sales of foreclosed real estate	\$ (10)	\$ (14)
Adjustments to valuation allowance	-	-
Operating expenses	<u>49</u>	<u>6</u>
	<u>\$ 39</u>	<u>\$ (8)</u>

Note 6. Deposits

The following table illustrates the breakdown of deposits by type and non-interest-bearing totals and interest bearing totals:

	<u>December 31, 2024</u>		<u>December 31, 2023</u>	
	<u>Non-interest Bearing</u>	<u>Interest Bearing</u>	<u>Non-interest Bearing</u>	<u>Interest Bearing</u>
Deposits:				
Demand deposits and NOW accounts	\$ 39,437	\$ 19,208	\$ 26,565	\$ 15,910
Savings and money market accounts	-	79,847	-	54,839
Certificates of deposits and IRA's	-	<u>147,398</u>	-	<u>159,167</u>
Totals	<u>\$ 39,437</u>	<u>\$ 246,453</u>	<u>\$ 26,565</u>	<u>\$ 229,916</u>

The aggregate amount of time deposits exceeding \$250 at December 31, 2024 and 2023 was \$37,807 and \$43,909, respectively. At December 31, 2024, the scheduled maturities of all time deposits are as follows:

	<u>CD's \$250,000 or less</u>	<u>CD's Over \$250,000</u>	<u>Total</u>
2025	\$ 77,216	\$ 12,455	\$ 89,671
2026-2027	29,360	9,535	38,895
After 2027	<u>3,015</u>	<u>15,817</u>	<u>18,832</u>
Total	<u>\$ 109,591</u>	<u>\$ 37,807</u>	<u>\$ 147,398</u>

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 7. Federal Home Loan Bank Advances

The Company has a line of credit established with the Federal Home Loan Bank of Atlanta ("FHLB") up to 25% of total assets. Investment securities, residential real estate and commercial real estate loans have been pledged to secure the line. The lendable value of these pledged assets, as determined by the FHLB, ultimately determines the capacity of the Company's line of credit. The following table outlines the pledges and lendable value at December 31, 2024.

	<u>Carrying Value Pledged</u>	<u>Lendable Value</u>	<u>Amount Borrowed</u>	<u>Amount Available</u>
Loans receivable	\$ 45,503	\$ 26,042	\$ 20,000	\$ 6,042
Securities available-for-sale	10,280	8,225	-	8,225
Totals	<u>\$ 55,783</u>	<u>\$ 34,267</u>	<u>\$ 20,000</u>	<u>\$ 14,267</u>

At December 31, 2024 and 2023, the Company had \$20 million and \$12 million in FHLB advances, respectively. The advances outstanding at December 31, 2024 and 2023 were fixed rate advances. The following table is a summary of the terms and maturities of the advances outstanding at December 31, 2024 and 2023:

<u>Maturity</u>	<u>December 31, 2024</u>		<u>December 31, 2023</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
January 22, 2024	\$ -	- %	\$ 2,000	5.44%
November 10, 2026	5,000	4.88	5,000	4.88
April 25, 2028	-	-	5,000	3.78
November 26, 2029	5,000	3.74	-	-
November 18, 2031	5,000	3.61	-	-
November 15, 2034	5,000	3.66	-	-
Total	<u>\$ 20,000</u>		<u>\$ 12,000</u>	

Note 8. Subordinated Debt

On October 21, 2021, the Company issued \$5 million of subordinated debentures with a maturity of October 21, 2031. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of \$1,000, on or after October 21, 2026, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the subordinated debentures. The cost to issue this debt was \$145 and is being amortized over five years because the debt is fully redeemable on October 21, 2026.

The subordinated debentures may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a fixed rate of 4.875% until October 21, 2026. After that date, the debentures have a variable rate of interest equal to the three month Secured Overnight Financing Rate (SOFR) plus 3.93%. On December 31, 2024, and 2023, the Company had \$51 and \$81 of remaining unamortized capitalized expenses related to the debt issuance costs that are being amortized over 5 years.

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 9. Derivative Financial Instruments

The Company uses interest rate swap agreements to mitigate interest rate risk volatility regarding its exposure to changes in interest rates. During 2024 and 2023, the Company utilized interest rate swaps to hedge the variability of cash flows due to changes in the interest rates on certain of its customer deposits.

The Company also uses interest rate swaps to manage its exposure to changes in fair value attributable to changes in interest rates on certain of its fixed-rate securities available-for-sale. During 2024 and 2023, the Company entered into fair value hedges on stated amounts of closed portfolios of securities available-for-sale.

For derivative instruments that are designated and qualify as a cash flow hedge, the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods 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. Gains and losses on the derivative instrument representing hedge components excluded from the assessment of effectiveness are recognized currently in earnings and are presented in the same line of the income statement expected for the hedged item.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The Entity includes the gain or loss on the hedged items (that is, securities available-for-sale and fixed-rate receivables) in the same line item—interest income—as the offsetting loss or gain on the related interest rate swaps.

These agreements can be terminated at the discretion of the Company due to anticipated changes in the interest rate environment. These derivatives are required to be disclosed at fair value. The fair value disclosures are listed in *Note 19 Fair Value Measurements*.

The Company elects to record the gross assets and liabilities of derivative financial instruments executed with the same counterparty on its consolidated balance sheets. The fair value of the Company's derivative financial instruments on a gross bases included in the consolidated balance sheet are as follows at December 31, 2024 and 2023. Derivative assets and derivative liabilities are reported in the "other assets" and the "accrued expenses and other liabilities" lines, respectively of the consolidated statements of financial condition

	December 31, 2024			December 31, 2023		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Derivative Assets	Derivative Liabilities		Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Cash flow hedge of customer deposits	\$ 17,000	\$ -	\$ 210	\$ 17,000	\$ -	\$ 445
Fair value hedge of securities available-for-sale	30,113	1,081	262	17,105	-	742
Total	<u>\$ 47,113</u>	<u>\$ 1,081</u>	<u>\$ 472</u>	<u>\$ 34,105</u>	<u>\$ -</u>	<u>\$ 1,186</u>

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 9. Derivative Financial Instruments, Continued

Line item in the balance sheet Where the hedged item is included	Amortized Cost of the Hedged Assets		Cumulative Amount of Fair Value Hedging Adjustment	
	2024	2023	2024	2023
Securities available-for-sale:				
Portfolio layer method ¹	\$ 8,477	\$ 9,033	\$ 104	\$ 375
Partial term method	24,373	9,702	(911)	376

¹On December 31, 2024, and 2023, the amount of the hedged portfolio layer used in these hedging relationships was \$8,174 and \$9,037, respectively.

Note 10. 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 include commitments to extend credit and standby letters of credit and have been issued for purposes other than trading. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

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

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. All letters of credit are due within one year of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2024, and 2023, there is a reserve for unfunded commitments of \$40 and \$35, respectively, included in other liabilities. The notional value of commitments to make loans and standby letters of credit were as follows:

	2024	2023
Financial instruments whose contract amounts represent credit risk at December 31:		
Commitments to extend credit	\$ 16,483	\$ 14,101
Standby letters of credit	20	20

Southern Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 11. Federal and State Income Taxes

The Company and the subsidiary Bank file consolidated federal income tax returns on a calendar-year basis. The Bank uses the experience method to determine bad debt deductions which differs from the provision used for financial reporting. The tax years 2021, 2022, and 2023 are subject to examination and adjustment by taxing authorities. The statute of limitations expires three years from filing dates, including extensions.

The consolidated provision for income taxes consisted of the following for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Current tax provision:		
Federal	\$ 84	\$ 45
State	<u>1</u>	<u>8</u>
Total current	<u>85</u>	<u>53</u>
Deferred:		
Federal	(5)	37
State	<u>(65)</u>	<u>(32)</u>
Total deferred	<u>(70)</u>	<u>5</u>
Change in valuation allowance	<u>11</u>	<u>8</u>
Total provision	<u>\$ 26</u>	<u>\$ 66</u>

The reasons for the differences between the statutory federal income tax rates and the effective tax rates are summarized as follows:

	<u>2024</u>	<u>2023</u>
Statutory rates	21.00%	21.00%
Increase (decrease) resulting from:		
State income taxes, net of federal benefits	(19.60)%	(8.76)%
Effect of tax-exempt income	(1.40)%	(5.00)%
Disallowed interest	0.27%	1.10%
Cash surrender value of bank-owned life insurance	(11.50)%	(11.66)%
Expiration of tax credits	9.82%	12.77%
Change in valuation allowance	4.26%	3.80%
Stock options	4.47%	5.82%
Nondeductible dues	1.73%	1.72%
Other	<u>0.90%</u>	<u>9.72%</u>
	<u>9.95%</u>	<u>30.51%</u>

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023 (Dollars in Thousands except per share data)

Note 11. Federal and State Income Taxes, Continued

Deferred tax assets and liabilities included in other assets at December 31 consist of the following:

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Allowance for credit losses - loans	\$ 401	\$ 435
Unfunded commitments	9	8
Accrued expenses	40	25
Foreclosed real estate	17	16
Deferred compensation	32	21
NOL and credits	362	196
Stock options	32	19
Net unrealized loss on hedges	-	295
Net unrealized loss on available-for-sale securities	1,214	1,033
Other	<u>9</u>	<u>-</u>
Deferred tax asset	2,116	2,048
Valuation allowance	<u>(161)</u>	<u>(150)</u>
Deferred tax asset, net of valuation allowance	1,955	1,898
Deferred tax liabilities:		
Unrealized gain on hedges	139	-
Accumulated depreciation	392	228
Other	<u>-</u>	<u>53</u>
Deferred tax liability	<u>531</u>	<u>281</u>
Net deferred tax asset	<u>\$ 1,424</u>	<u>\$ 1,617</u>

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. As of December 31, 2024, management has determined it is likely the majority of the deferred tax asset from continuing operations will be realized. The valuation allowance of \$161 relates to the Company's state operating loss and credit carryforwards for which realizability is uncertain.

As of December 31, 2024, the Company had federal net operating losses of \$458 with no expiration date but limited to 80% of federal taxable income and state net operating losses of \$1,768, of which \$285 expire in tax years 2033-2037 with the remaining having no expiration date but limited to 80% of state taxable income. As of December 31, 2024, the Company had \$273 of state tax credits which expire in tax years 2025-2039.

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Note 12. Related Parties

The Company has engaged in transactions with its directors, significant shareholders, and their affiliates (“related parties”). The amount of loans to such related parties at December 31, 2024 and 2023 is as follows.

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 6,638	\$ 2,614
New loans originated	600	4,338
REG-O Status change	(4,118)	-
Repayments	<u>(93)</u>	<u>(314)</u>
Balance, end of year	<u>\$ 3,027</u>	<u>\$ 6,638</u>

These totals exclude loans made in the ordinary course of business to other companies with which the Bank has no relationship other than the association of one of its directors in the capacity of officer or director. These loan transactions were made on substantially the same terms as those prevailing at the time for comparable loans to other persons. They did not involve more than the normal risk of collectability or present other unfavorable features.

The aggregate balances of deposits of related parties held by the Company at December 31, 2024 and 2023 was \$6,343 and \$10,911, respectively. These deposit transactions were made on substantially the same terms as those prevailing at the time for comparable deposits of other persons.

Note 13. Commitments and Contingencies

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. None are expected to have a material adverse effect on the consolidated financial condition of the Bank.

Note 14. Restrictions on Retained Earnings

The approval of the Georgia Department of Banking and Finance is required before the Bank's dividends in a given year may exceed fifty percent of its net profit (as defined) for the preceding year or if the ratio of equity capital to adjusted total assets is less than six percent. During 2024, the Bank paid dividends of \$0 to the Holding Company. At December 31, 2024, approximately \$253 were available for dividend distributions without prior regulatory approval. There were no appropriations of, or restrictions on, retained earnings at December 31, 2024.

Note 15. Pension and Profit-Sharing Plans

The Company maintains a defined contribution profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code. As of January 1, 2022, the plan was amended to qualify as a Safe Harbor plan. As such, the plan now covers all the Bank's employees and contributions by the Company are mandatory. The plan continues to allow for voluntary employee pre-tax deferrals. The company matches 100% on the first 3% contributed by the employee and 50% on the next 2% contributed by the employee. The employee is immediately 100% vested in the employer match under the Safe Harbor provisions. The Company contributed \$99 and \$79 to the plan for the years ended December 31, 2024 and 2023, respectively.

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Note 16. Stock-based Compensation

The Company's 2021 Equity Incentive Plan (stock option plan or the Plan), which is director and shareholder-approved, permits the grant of share options to its employees and directors for up to 10% of shares of common stock outstanding, which equates to 338,031 shares at December 31, 2024. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards have vesting periods ranging from 3 to 5 years and have 10-year contractual terms.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions in the following table. Due to the limited trading in the Company's stock, expected volatilities are based on historical volatilities of a custom peer group of bank holding companies similar in size and scope to our Company. Likewise, the expected term of options granted is based on management's experience at similar institutions and represents the period that options granted are expected to be outstanding, which considers that the options are not transferrable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date:

	<u>2024</u>
Risk-free interest rate	4.07%
Expected term	6 years
Expected stock price volatility	24.28%
Dividend yield	- %

A summary of the activity in the stock option plan for 2024 follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>
Outstanding at beginning of year	171,850	\$ 8.22	8.00
Granted	32,300	9.00	9.05
Exercised	-	-	-
Forfeited or expired	<u>(13,900)</u>	8.47	7.60
Outstanding at end of year	<u>190,250</u>	8.33	7.30
Exercisable at end of year	105,383	8.69	6.64

As of December 31, 2024, there was \$102 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.54 years.

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Note 17. Earnings Per Share

	<u>2024</u>	<u>2023</u>
Net Income	\$ 233	\$ 150
Net income per common share:		
Basic	0.07	0.05
Diluted	0.07	0.05
Weighted Average common shares:		
Basic	3,402,180	3,026,650
Effect of dilutive securities:		
Stock Options	-	7,274
Diluted	<u>3,402,180</u>	<u>3,033,924</u>

Note 18. Regulatory Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available-for-sale securities is included in computing regulatory capital. Management believes as of December 31, 2024, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2024 and 2023, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020, and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 9% for

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Note 18. Regulatory Matters, Continued

calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount provided that the bank maintains a leverage ratio of 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert to the risk-weighting framework without restriction. As of December 31, 2024, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The leverage capital guidelines presently only apply on a consolidated basis to any bank holding company with consolidated assets of \$3 billion or more, unless the holding company is engaged in certain activities as defined by the Federal Reserve Board. The Company does not anticipate that it would be subject to the consolidated leverage capital measures. However, as a holding company with less than \$3 billion of assets, the Company would be subject to the Federal Reserve Board's Small Bank Holding Company Policy Statement.

Actual and required capital amounts and ratios are presented in the table.

	Amount		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2024:				
Tier 1 Capital (to Average Assets)				
Consolidated	\$ 28,240	8.85%	N/A	N/A
Southern Bank	\$ 31,356	9.82%	\$ 28,725	≥ 9.0%

	Amount		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2023:				
Tier 1 Capital (to Average Assets)				
Consolidated	\$ 22,823	8.99%	N/A	N/A
Southern Bank	\$ 25,849	10.18%	\$ 22,850	≥ 9.0%

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Note 19. Fair Value Measurements

Generally accepted accounting principles provide a framework for measuring and disclosing fair value which requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, 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 loans).

Accounting guidance 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 willing market participants on the measurement date. It also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Generally accepted accounting principles related to fair-value measurements and disclosures establishes three levels of inputs that may be used to measure fair value:

- Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities.
- Level 2: Valuation is based on 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 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.
- Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Following is a description of valuation techniques used for assets and liabilities recorded at fair value.

Securities available-for-sale: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Individually evaluated loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered individually evaluated and an allowance for credit losses may be established. Loans for which it is probable that payment of interest and principal will not be made in

Southern Financial Corporation

Notes to Consolidated Financial Statements

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Note 19. Fair Value Measurements, Continued

accordance with the contractual terms of the loan agreement are considered individually evaluated. Once a loan is identified as individually evaluated, management measures the impairment in accordance with FASB ASC 326. The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those individually evaluated loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with FASB ASC 820, "Fair Value Measurement and Disclosures," individually evaluated loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the individually evaluated loan as nonrecurring Level 2. The Company's current loan and appraisal policies require the Company to obtain updated appraisals on an "as is" basis at renewal, or in the case of an individually evaluated loan, on an annual basis, either through a new external appraisal or an appraisal evaluation. 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 considers the individually evaluated loan as nonrecurring Level 3. The fair value of individually evaluated loans may also be estimated using the present value of expected future cash flows to be realized on the loan, which is also considered a Level 3 valuation. These fair value estimates are subject to fluctuations in assumptions about the amount and timing of expected cash flows as well as the choice of discount rate used in the present value calculation.

Foreclosed real estate: Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value minus selling costs. When the fair value of the property is based on an observable market price or a current appraised value, the foreclosed real estate is recorded as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the property requires reduction for estimated selling costs or is further impaired below the appraised value and there is no observable market price, the foreclosed real estate is recorded as a nonrecurring Level 3 measurement.

Derivative Financial instruments: The Company estimates the fair value of its interest rate swaps based on the underlying value of the investments securities or deposit accounts hedged. The investment securities fair values are based on quoted market prices (Level 2). The Company estimates the fair value of the derivative liability based on changes in the benchmark interest rate component of the hedged deposits. The estimated variable rate cash inflows were compared to the fixed rate outflows and such difference was discounted to a present value to estimate the fair value of the interest rate swaps. The components of the valuation were observable or could be corroborated by observable market data and, therefore, were classified within Level 2 of the valuation hierarchy.

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Note 19. Fair Value Measurements, Continued

The following tables present the recorded amounts of assets measured at fair value on a recurring basis and nonrecurring basis.

Assets	December 31, 2024			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Securities available-for-sale	\$ 14,369	\$ 80,079	\$ -	\$ 94,448
Derivative assets	-	1,081	-	1,081
Total assets measured at fair value on a recurring basis	<u>\$ 14,369</u>	<u>\$ 81,160</u>	<u>\$ -</u>	<u>\$ 95,529</u>
Nonrecurring fair value measurements				
Individually assessed loans	\$ -	\$ -	\$ 161	\$ 161
Foreclosed real estate	-	-	879	879
Total assets measured at fair value on a Non-recurring basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,040</u>	<u>\$ 1,040</u>

Liabilities

Recurring fair value measurements

Derivative liabilities	\$ -	\$ 472	\$ -	\$ 472
Total liabilities measured at fair value on a recurring basis	<u>\$ -</u>	<u>\$ 472</u>	<u>\$ -</u>	<u>\$ 472</u>

Assets	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Securities available-for-sale	\$ 924	\$ 78,407	\$ -	\$ 79,331
Total assets measured at fair value on a recurring basis	<u>\$ 924</u>	<u>\$ 78,407</u>	<u>\$ -</u>	<u>\$ 79,331</u>
Nonrecurring fair value measurements				
Individually assessed loans	\$ -	\$ -	\$ 1,402	\$ 1,402
Foreclosed real estate	-	-	115	115
Total assets measured at fair value on a Non-recurring basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,517</u>	<u>\$ 1,517</u>

Liabilities

Recurring fair value measurements

Derivative liabilities	\$ -	\$ 1,186	\$ -	\$ 1,186
Total liabilities measured at fair value on a recurring basis	<u>\$ -</u>	<u>\$ 1,186</u>	<u>\$ -</u>	<u>\$ 1,186</u>

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Note 20. Condensed Financial Information of Parent Corporation

Condensed Balance Sheets

	<u>2024</u>	<u>2023</u>
Assets		
Cash	\$ 1,789	\$ 1,861
Investment in bank subsidiary	28,078	21,827
Other Assets	<u>91</u>	<u>79</u>
Total assets	<u>\$ 29,958</u>	<u>\$ 23,767</u>
Liabilities and Shareholders' Equity		
Liabilities		
Subordinated debt	4,949	4,919
Accrued interest payable	47	47
Other accrued liabilities	<u>-</u>	<u>1</u>
Total liabilities	<u>4,996</u>	<u>4,967</u>
Shareholders' Equity		
Preferred stock	-	-
Common stock	34	28
Additional paid-in capital	19,798	14,619
Retained earnings	8,408	8,175
Accumulated other comprehensive loss	<u>(3,278)</u>	<u>(4,022)</u>
Total shareholders' equity	<u>24,962</u>	<u>18,800</u>
Total liabilities and shareholders' equity	<u>\$ 29,958</u>	<u>\$ 23,767</u>

Condensed Statements of Income

	<u>2024</u>	<u>2023</u>
Operating income		
Interest expense	\$ (273)	\$ (273)
Other operating expenses	<u>(74)</u>	<u>(63)</u>
Total expenses	<u>(347)</u>	<u>(336)</u>
Income tax benefit	73	71
Loss before equity in undistributed net income of subsidiary	(274)	(265)
Equity in undistributed net income of bank subsidiary	<u>507</u>	<u>415</u>
Net income	<u>\$ 233</u>	<u>\$ 150</u>

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Note 20. Condensed Financial Information of Parent Corporation, Continued

Condensed Statements of Cash Flows

	<u>2024</u>	<u>2023</u>
Cash Flow from Operating Activities:		
Net income	\$ 233	\$ 150
Adjustments to reconcile net income to net cash used by operating activities:		
Subsidiary's undistributed income	(507)	(415)
Amortization of debt issuance costs	30	29
Stock based compensation	107	99
Stock issued in lieu of compensation	26	46
Increase in other assets	(12)	(64)
Decrease in other liabilities	(1)	-
Decrease in due from subsidiary	-	72
Net cash used for operating activities	<u>(124)</u>	<u>(83)</u>
Cash Flow from Investing Activities:		
Additional investment in bank subsidiary	<u>(5,000)</u>	<u>-</u>
Net cash used for investing activities	<u>(5,000)</u>	<u>-</u>
Cash Flow from Financing Activities:		
Net proceeds from the issuance common stock	<u>5,052</u>	<u>-</u>
Net cash provided by financing activities	<u>5,052</u>	<u>-</u>
Net decrease in cash and cash equivalents	(72)	(83)
Cash and equivalents, beginning of year	<u>1,861</u>	<u>1,944</u>
Cash and equivalents, end of year	<u>\$ 1,789</u>	<u>\$ 1,861</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	\$ 273	\$ 273
Income taxes, net of refunds	5	146
Noncash investing and financing activities:		
(Increase)/decrease in accumulated other comprehensive income/(loss):		
Investment securities available-for-sale	\$ 568	\$ (25)
Derivatives and hedges	176	(337)