

# **Southern Financial Corporation**

## ***Report on Consolidated Financial Statements***

***As of and for the years ended December 31, 2025 and 2024***

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## Independent Auditor's Report

Board of Directors  
Southern Financial Corporation and Subsidiary  
468 East Main Street  
Spartanburg, SC 29302

### Opinion

We have audited the accompanying consolidated financial statements of Southern Financial Corporation and Subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of their operations and 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. 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 available to be issued.

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## 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 26, 2026

Southern Financial Corporation  
Consolidated Statements of Financial Condition  
As of December 31, 2025 and 2024  
(Dollars in Thousands except per share data)

	2025	2024
<b>Assets</b>		
Cash and due from banks	\$ 3,212	\$ 3,689
Interest bearing bank balances	14,166	2,308
Federal funds sold	12,050	14,050
Total cash and cash equivalents	<u>29,428</u>	<u>20,047</u>
Securities available-for-sale (amortized cost of \$82,746 and \$99,397, net of allowance for credit losses of \$0 as of December 31, 2025 and 2024, respectively)	79,690	94,448
Restricted equity securities	1,526	1,401
Loans receivable	236,284	197,599
Less: allowance for credit losses	<u>(2,378)</u>	<u>(2,065)</u>
Loans, net	<u>233,906</u>	<u>195,534</u>
Accrued interest receivable	1,508	1,389
Premises and equipment, net	15,477	15,666
Right-of-use asset for operating lease, net	530	-
Bank owned life insurance	4,618	4,470
Net deferred tax asset	957	1,424
Other assets	3,281	3,332
Total assets	<u>\$ 370,921</u>	<u>\$ 337,711</u>
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 35,328	\$ 39,437
Interest-bearing	280,274	246,453
Total deposits	<u>315,602</u>	<u>285,890</u>
Federal Home Loan Bank advances - short term	5,000	-
Federal Home Loan Bank advances - long term	15,000	20,000
Subordinated debt	4,978	4,949
Borrower's escrow payable	692	121
Lease liability for operating lease	533	-
Accrued expenses and other liabilities	<u>1,943</u>	<u>1,789</u>
Total liabilities	<u>343,748</u>	<u>312,749</u>
<b>Commitments and Contingencies (Notes 11 and 14)</b>		
<b>Shareholders' Equity</b>		
Preferred stock - par value \$0.01 per share; 1,000,000 shares authorized; 4,000 shares issued and outstanding as of December 31, 2025 and December 31, 2024, respectively	-	-
Common stock - par value \$0.01 per share; 10,000,000 shares authorized; 3,383,904 and 3,380,311 shares issued and outstanding as of December 31, 2025 and December 31, 2024, respectively	34	34
Additional paid-in capital	19,915	19,798
Retained earnings	9,008	8,408
Accumulated other comprehensive loss	<u>(1,784)</u>	<u>(3,278)</u>
Total shareholders' equity	<u>27,173</u>	<u>24,962</u>
Total liabilities and shareholders' equity	<u>\$ 370,921</u>	<u>\$ 337,711</u>

See Notes to Consolidated Financial Statements

Southern Financial Corporation  
Consolidated Statements of Income  
For the years ended December 31, 2025 and 2024  
(Dollars in Thousands except per share data)

	2025	2024
<b>Interest income</b>		
Loans, including fees	\$ 15,179	\$ 13,153
Securities available-for-sale	4,555	4,804
Federal funds sold	362	462
Other bank deposits	291	161
Dividends	76	70
Total interest income	<u>20,463</u>	<u>18,650</u>
<b>Interest expense</b>		
Deposits	8,903	9,091
Borrowings	<u>1,076</u>	<u>856</u>
Total interest expense	<u>9,979</u>	<u>9,947</u>
Net interest income	10,484	8,703
Provision for credit losses	<u>600</u>	<u>455</u>
Net interest income after provision for credit losses	<u>9,884</u>	<u>8,248</u>
<b>Noninterest income</b>		
Customer service fees	345	320
Mortgage banking income	287	215
Net gain on investment securities transactions	94	17
Other	<u>203</u>	<u>292</u>
Total noninterest income	<u>929</u>	<u>844</u>
<b>Noninterest expenses</b>		
Salaries and employee benefits	6,176	5,161
Occupancy expenses	1,600	1,437
Data processing	496	475
Advertising	212	274
Deposit insurance premiums	230	244
Other	<u>1,461</u>	<u>1,242</u>
Total noninterest expenses	<u>10,175</u>	<u>8,833</u>
Income before income taxes	638	259
Provision for income taxes	<u>38</u>	<u>26</u>
Net income per common share	<u>\$ 600</u>	<u>\$ 233</u>
<b>Earnings per common share</b>		
Basic	\$ 0.16	\$ 0.07
Diluted	\$ 0.16	\$ 0.07
<b>Weighted average common shares outstanding</b>		
Basic	3,782,956	3,402,180
Diluted	3,798,482	3,402,180

See Notes to Consolidated Financial Statements

Southern Financial Corporation  
Consolidated Statements of Comprehensive Income  
For the years ended December 31, 2025 and 2024  
(Dollars in Thousands)

	2025	2024
Net income	\$ 600	\$ 233
<b>Other comprehensive income</b>		
Investment securities available-for-sale:		
Unrealized holding gains on securities		
available-for-sale arising during the period, net	2,049	759
Gains/(losses) reclassified to net income	(115)	5
Related income tax impact	(475)	(196)
Derivatives and hedges:		
Unrealized holding gains/(losses) on cash flow		
hedges arising during the period, net	46	233
Related income tax impact	(11)	(57)
Other comprehensive gain	1,494	744
<b>Comprehensive income</b>	<b>\$ 2,094</b>	<b>\$ 977</b>

See Notes to Consolidated Financial Statements

Southern Financial Corporation  
Consolidated Statements of Changes in Shareholders' Equity  
For the years ended December 31, 2025 and 2024  
(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				
<b>Balance, December 31, 2023</b>	2,250	-	2,802,568	28	14,619	8,175	(4,022)	18,800
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
<b>Balance, December 31, 2024</b>	<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>
Net income	-	-	-	-	-	600	-	600
Stock issued in lieu of compensation	-	-	3,593	-	24	-	-	24
Stock based compensation	-	-	-	-	93	-	-	93
Other comprehensive income	-	-	-	-	-	-	1,494	1,494
<b>Balance, December 31, 2025</b>	<u>4,000</u>	<u>-</u>	<u>3,383,904</u>	<u>\$ 34</u>	<u>\$ 19,915</u>	<u>\$ 9,008</u>	<u>\$ (1,784)</u>	<u>\$ 27,173</u>

See Notes to Consolidated Financial Statements

Southern Financial Corporation  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2025 and 2024  
(Dollars in Thousands)

	2025	2024
<b>Cash flows from operating activities</b>		
Net income	\$ 600	\$ 233
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	600	455
Depreciation	744	640
Net amortization of investment securities	(182)	(285)
Amortization of debt issuance costs	29	30
Loss/(gain) on sale of foreclosed real estate	17	(10)
Loss/(gain) on disposal of fixed asset	2	(126)
Net change in operating leases	3	-
Net gain on investment securities transactions	(94)	(17)
Increase in cash surrender value of BOLI	(148)	(142)
Deferred tax benefit	(19)	(59)
Write down of foreclosed real estate	35	-
Stock based compensation	93	107
Stock issued in lieu of compensation	24	26
Increase in operating assets:		
Accrued interest receivable	(119)	(260)
Other assets	(149)	(24)
Increase (decrease) in operating liabilities:		
Accrued interest payable	(5)	(4)
Borrower's escrow payable	571	-
Accrued expenses and other liabilities	104	226
Net cash provided by operating activities	<u>2,106</u>	<u>790</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales, calls and maturities of investment securities:		
Available-for-sale	18,277	6,265
Purchases of investment securities:		
Available-for-sale	(17,810)	(32,250)
Proceeds from principal paydowns of available-for-sale securities	16,547	10,376
Purchase of restricted equity stock	(125)	(674)
Net increase in loans	(38,897)	(15,111)
Proceeds from sale of foreclosed real estate	128	144
Purchases of property and equipment	(557)	(1,288)
Net cash used for investing activities	<u>(22,437)</u>	<u>(32,538)</u>

See Notes to Consolidated Financial Statements

Southern Financial Corporation  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2025 and 2024  
(Dollars in Thousands)

	2025	2024
<b>Cash flows from financing activities</b>		
Net increase in demand deposits, NOW accounts, money market deposit accounts and savings accounts	19,798	41,178
Net increase/(decrease) in time deposits	9,914	(11,769)
Net proceeds from Federal Home Loan Bank advances	-	8,000
Net proceeds from issuance of common stock	-	5,052
Net cash provided by financing activities	29,712	42,461
Net increase in cash and cash equivalents	9,381	10,713
<b>Cash and cash equivalents, beginning of year</b>	20,047	9,334
<b>Cash and cash equivalents, end of year</b>	<u>\$ 29,428</u>	<u>\$ 20,047</u>
<b>Cash paid for</b>		
Interest	\$ 9,984	\$ 9,951
Income taxes, net of refunds	54	5
<b>Schedule of noncash transactions</b>		
Decrease in accumulated other comprehensive loss:		
Investment securities available-for-sale	\$ (1,459)	\$ 568
Derivatives and hedges	(35)	176
Transfers of loans to foreclosed real estate	20	898
Loans charged off	298	607
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	593	-

See Notes to Consolidated Financial Statements

**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 federal 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. 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, Aiken and Horry 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.

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.

**Note 1. Significant Accounting Policies, Continued**

*Risk and uncertainties, continued:*

As of December 31, 2025, 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 state of South Carolina. The Bank's loan portfolio has a concentration of real estate loans. As of December 31, 2025 and 2024, real estate loans represented 72% and 75% 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. Aggregate uninsured deposit balances were \$25,958 as of December 31, 2025 and \$17,222 as of December 31, 2024.

The Bank also maintains Federal Funds Purchased lines of credit with four correspondent banking institutions, providing aggregate borrowing capacity of \$22,000. As of December 31, 2025 and 2024, the Bank had no outstanding borrowings under these lines of credit.

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

*Subsequent events:*

On October 31, 2025, the Company entered into definitive agreements to sell its Georgia branch operations to an unrelated third party. The transaction includes the sale of substantially all branch-related assets and the transfer of associated customer relationships. The sale is subject to customary regulatory approvals and other closing conditions. Closing is not expected to occur until the second quarter of 2026. Because the transaction had not closed as of the date the financial statements were issued, no adjustments have been made to the accompanying financial statements related to this subsequent event.

Management has reviewed events occurring through March 26, 2026, 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.

**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. The Bank's vault cash fully satisfied the required reserve balance as of December 31, 2025 and 2024.

Securities available-for-sale:

Debt securities are classified as "available-for-sale" ("AFS") and are carried at fair value, with unrealized gains and losses recognized in other comprehensive income rather than current period earnings. 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:

Restricted equity securities 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 \$1,281 and \$1,156 as of December 31, 2025 and 2024, 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. As of December 31, 2025 and 2024, the investment in FNBB stock was \$245.

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.

**Note 1. Significant Accounting Policies, Continued**

Allowance for credit Losses – securities available-for-sale, continued:

Any unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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 available-for-sale security is confirmed to be uncollectible or when either criteria regarding intent or requirement to sell is met. As of December 31, 2025 and 2024, there was no allowance for credit loss related to the available-for-sale portfolio.

Accrued interest receivable on available-for-sale debt securities totaled \$566 as of December 31, 2025, and \$638 as of December 31, 2024. This amount is reported within accrued interest receivable and is excluded from the measurement of expected 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 the state of 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 \$915 and \$696 as of December 31, 2025 and 2024, respectively, and 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 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 2025 and 2024 was immaterial.

**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 un-collectability 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 measurement of expected 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 determined based on management's evaluation of relevant internal and external risk factors, including historical loss experience, current economic 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.

**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 consolidated 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 accrued expenses and other liabilities on the 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 accounts for leases in accordance with ASC 842, Leases. The Bank is the lessee in one non-cancelable operating lease for a branch location. At the commencement date of the lease, the Company recognized a right-of-use ("ROU") asset and a corresponding operating lease liability, each measured at the present value of future lease payments over the lease term. Further details regarding

**Note 1. Significant Accounting Policies, Continued**

Leases, continued:

the Company's operating lease, including maturity analysis and right-of-use asset balances, are presented in Note 5.

The Company previously leased certain copiers for its own use under 60-month lease agreements. These copier leases expired in September 2025, at which time the Company purchased the copiers. Occupancy expenses for the years ended December 31, 2025 and 2024 include payments made under the copier lease agreements through their expiration.

The Company also enters into short-term operating leases as a lessor for 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 short-term lease agreement for nine months with two optional three-month extensions. The most recent short-term lease ended on September 30, 2025. Consistent with ASC 842, these agreements qualify as short-term leases and are not recorded as lease assets or lease liabilities. Rental income from these agreements offsets 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 the carrying amount or the fair value less the 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.

**Note 1. Significant Accounting Policies, Continued**

*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.

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.

**Note 1. Significant Accounting Policies, Continued**

Stock-based compensation:

Included in salaries and employee benefits is the compensation cost related to common stock options which totaled \$93 and \$107 for the years ended December 31, 2025 and 2024, 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 \$2.64 and \$2.99 per share for 2025 and 2024, 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:

Comprehensive income consists of net income for the current period and other comprehensive income, 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 income.

In this statement, the Company reports items of other comprehensive income according to their nature. Total comprehensive income is also reported in the consolidated statements of changes in

**Note 1. Significant Accounting Policies, Continued**

Comprehensive income, continued:

shareholders' equity. The accumulated balance of accumulated other comprehensive income is shown separately in the shareholders' equity section of the consolidated statements of financial condition. As of December 31, 2025, accumulated other comprehensive income includes unrealized holding gains and losses on available-for-sale investment securities and unrealized holding gains and losses on the interest rate swaps.

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:

In December 2025, the FASB issued amendments to the Codification to make incremental improvements to generally accepted accounting principles. The amendments are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods. Early adoption is permitted for both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. The Company will apply the amendments prospectively to all transaction recognized on or after the date that the Company first applies the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

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.

Newly issued but not yet effective accounting standards:

The Financial Accounting Standards Board has issued several Accounting Standards Updates ("ASU") that are not yet effective for the Bank. Management has evaluated these updates and determined that none are expected to have a material effect on the Bank's financial statements, as summarized below.

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 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. This ASU is effective for the Company for fiscal years 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.

**Note 1. Significant Accounting Policies, Continued**

*Newly issued but not yet effective accounting standards, continued:*

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 the Company 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.

In November 2025, the FASB issued ASU 2025-09 — Derivatives and Hedging (Topic 815): Hedge Accounting Improvements. The update introduces targeted amendments to hedge accounting, including refinements to similar-risk assessments for cash-flow hedges, hedging interest payments on choose-your-rate debt, and the use of certain instruments as hedging instruments. It is effective for the Company for fiscal years beginning after December 15, 2027.

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**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 as of December 31, 2025 and 2024 follow. There was no allowance for credit loss related to the available-for-sale portfolio as of December 31, 2025 or 2024.

	December 31, 2025			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency securities	\$ 8,266	\$ 12	\$ 681	\$ 7,597
U.S. Treasury securities	15,688	-	1,049	14,639
State and municipal securities - exempt	10,016	352	6	10,362
State and municipal securities - taxable	5,823	1	576	5,248
Mortgage-backed securities	22,737	149	1,052	21,834
Asset-backed securities	13,769	25	34	13,760
Corporate securities	6,447	25	222	6,250
<b>Total</b>	<b>\$ 82,746</b>	<b>\$ 564</b>	<b>\$ 3,620</b>	<b>\$ 79,690</b>

  

	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
<b>Total</b>	<b>\$ 99,397</b>	<b>\$ 431</b>	<b>\$ 5,380</b>	<b>\$ 94,448</b>

**Southern Financial Corporation**  
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**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 by category and length of time the securities have been in a continuous loss position as of December 31, 2025 and 2024.

December 31, 2025	Less Than 12 Month			12 Months or More			Total		
	#	Estimated	Unrealized	#	Estimated	Unrealized	#	Estimated	Unrealized
		Fair Value	Losses		Fair Value	Losses		Fair Value	Losses
U.S. Agency	-	\$ -	\$ -	18	\$ 6,438	\$ 681	18	\$ 6,438	\$ 681
U.S. Treasury	-	-	-	5	14,639	1,049	5	14,639	1,049
State and municipal - exempt	-	-	-	2	314	6	2	314	6
State and municipal - taxable	-	-	-	8	4,748	576	8	4,748	576
Mortgage-backed	5	3,308	13	16	10,429	1,039	21	13,737	1,052
Asset-backed	3	5,912	34	-	-	-	3	5,912	34
Corporate	4	1,236	14	12	2,995	208	16	4,231	222
<b>Total</b>	<b>12</b>	<b>\$ 10,456</b>	<b>\$ 61</b>	<b>61</b>	<b>\$ 39,563</b>	<b>\$ 3,559</b>	<b>73</b>	<b>\$ 50,019</b>	<b>\$ 3,620</b>

December 31, 2024	Less Than 12 Month			12 Months or More			Total		
	#	Estimated	Unrealized	#	Estimated	Unrealized	#	Estimated	Unrealized
		Fair Value	Losses		Fair Value	Losses		Fair Value	Losses
U.S. Agency	1	\$ 121	\$ 1	18	\$ 6,460	\$ 1,075	19	\$ 6,581	\$ 1,076
U.S. Treasury	3	13,442	1,217	2	927	97	5	14,369	1,314
State and municipal - exempt	-	-	-	2	361	14	2	361	14
State and 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	1	431	16	17	4,026	466	18	4,457	482
<b>Total</b>	<b>12</b>	<b>\$ 20,513</b>	<b>\$ 1,309</b>	<b>65</b>	<b>\$ 28,842</b>	<b>\$ 4,071</b>	<b>77</b>	<b>\$ 49,355</b>	<b>\$ 5,380</b>

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.

As of December 31, 2025 and 2024, securities with a carrying value of \$14,059 and \$16,605, respectively were pledged to secure public deposits and for other purposes as required or permitted by law. As of December 31, 2025 and 2024, securities with a carrying value of \$1,555 and \$10,224, respectively, were pledged to the Federal Home Loan Bank line of credit.

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**Note 2. Securities Available-for-Sale, Continued**

As of December 31, 2025 and 2024, securities with a carrying value of \$4,605 and \$4,530, respectively, were pledged to the counterparty on interest rate swaps.

The amortized cost and fair value of debt securities by contractual maturity as of December 31, 2025 are as follows:

	<b>Available-for-Sale Securities</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>December 31, 2025</b>		
Due within one year	\$ 7,969	\$ 7,993
Due after one year through five years	28,365	27,782
Due after five years through ten years	18,313	17,027
Due after ten years	28,099	26,888
<b>Total</b>	<b>\$ 82,746</b>	<b>\$ 79,690</b>

Proceeds from sales, calls and maturities of available-for-sale securities totaled \$18,277 during 2025. Of this amount, the Company sold \$16,203 of securities and recognized a gross realized gain of \$75. Another \$2,074 matured or was called at a gross realized gain of \$19.

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 was called at a gross realized gain of \$17.

**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 unaccreted deferred loan origination fees:

	<b>2025</b>	<b>2024</b>
Construction and land ("Construction")	\$ 35,493	\$ 16,649
Farmland	4,148	2,206
Residential real estate ("Real estate")	53,202	41,539
Multi-family real estate ("Multifamily")	2,646	2,747
Commercial real estate ("Commercial RE")	114,219	104,604
Commercial and industrial ("Candi")	23,019	26,633
Consumer	3,557	3,221
<b>Total loans</b>	<b>\$ 236,284</b>	<b>\$ 197,599</b>
Less allowance for credit losses	2,378	2,065
<b>Total loans, net</b>	<b>\$ 233,906</b>	<b>\$ 195,534</b>

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**Note 3. Loans and Allowance for Credit Losses, Continued**

As of December 31, 2025 residential real estate loans with a carrying value of \$12,634 and commercial real estate loans with a carrying value of \$49,405 were pledged to the FHLB as collateral for the Bank's line of credit.

Delinquency disclosures:

The following tables present an analysis of past-due loans as of December 31, 2025 and 2024, respectively:

	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
<b>December 31, 2025</b>						
Construction and land	\$ 27	\$ 8	\$ -	\$ 21	\$ 35,437	\$ 35,493
Farmland	-	-	-	-	4,148	4,148
Residential real estate	859	903	-	114	51,326	53,202
Multi-family real estate	-	-	-	-	2,646	2,646
Commercial real estate	20	275	-	82	113,842	114,219
Commercial and industrial	25	-	-	104	22,890	23,019
Consumer	28	51	-	1	3,477	3,557
<b>Total</b>	<u>\$ 959</u>	<u>\$ 1,237</u>	<u>\$ -</u>	<u>\$ 322</u>	<u>\$ 233,766</u>	<u>\$ 236,284</u>

	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
<b>December 31, 2024</b>						
Construction and 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 and industrial	20	16	-	228	26,369	26,633
Consumer	149	9	-	85	2,978	3,221
<b>Total</b>	<u>\$ 754</u>	<u>\$ 373</u>	<u>\$ -</u>	<u>\$ 681</u>	<u>\$ 195,791</u>	<u>\$ 197,599</u>

Modifications made to borrowers experiencing financial difficulties:

The Company made no modifications to borrowers experiencing financial difficulties during 2025 or 2024.

### **Note 3. Loans and Allowance for Credit Losses, Continued**

#### *Risk ratings:*

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.

- Grade 1 — Lowest Risk – Borrowers with exceptional financial strength, strong liquidity, and stable cash flow. Collateral coverage is abundant, and repayment capacity is well beyond requirements. These credits are resilient to local economic stress and require only routine monitoring.
- Grade 2 — Very Low Risk – Strong, well-capitalized borrowers with consistent performance and conservative leverage. Repayment capacity remains solid even under stress scenarios. These loans are comfortably within Pass and present minimal supervisory concern.
- Grade 3 — Below Average Risk – Borrowers with sound financials and adequate collateral, though more sensitive to economic cycles or industry conditions. Cash flow is stable but not exceptional. Still firmly Pass-rated, but with characteristics that warrant normal ongoing monitoring.
- Grade 4 — Average Risk – Borrowers with acceptable performance and modest weaknesses in liquidity, leverage, or margins. Repayment capacity is adequate but could be pressured by local downturns. Fully Pass-rated but closer to the lower end of the Pass spectrum.
- Grade 5 — Acceptable Risk – Borrowers showing early signs of strain—tightening cash flow, rising leverage, or declining collateral values. Still performing and expected to continue doing so, but more vulnerable to stress.
- Grade 6 — Special Mention – Borrowers with emerging weaknesses that, if uncorrected, could lead to deterioration. Examples include delayed financial reporting, declining collateral, management turnover, or early delinquency. No loss is expected, but the credit requires close attention.
- Grade 7 — Substandard – Borrowers with well-defined weaknesses that jeopardize repayment. Cash flow is insufficient or inconsistent, collateral coverage may be deteriorating, and repayment may depend on refinancing or asset sales. Loss is possible.
- Grade 8 — Doubtful – Severe financial distress with little realistic prospect of full repayment. Collateral is often insufficient or difficult to liquidate. Collection efforts are active, and only partial recovery is expected.
- Grade 9 — Loss – Repayment is not expected, and collateral or guarantor support is inadequate. The loan should be charged off or fully reserved.

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**Note 3. Loans and Allowance for Credit Losses, Continued**

*Risk ratings, continued:*

The following table presents the Company's recorded investment in loans by credit quality indicators as of December 31, 2025 and 2024, respectively:

December 31, 2025	Construction and Land	Farmland	Residential Real Estate	Multi - Family Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Grade 1- Lowest Risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62	\$ 706	\$ 768
Grade 2- Very low risk	-	-	7	-	134	-	909	1,050
Grade 3- Below average	578	-	1,401	-	934	274	131	3,318
Grade 4- Average	15,933	4,017	43,802	2,646	81,960	16,845	1,674	166,877
Grade 5- Acceptable	18,961	-	6,907	-	29,528	5,516	73	60,985
Grade 6- Special mention	-	-	813	-	1,581	322	63	2,779
Grade 7- Substandard	21	131	272	-	82	-	-	506
Grade 8- Doubtful	-	-	-	-	-	-	1	1
Grade 9- Loss	-	-	-	-	-	-	-	-
<b>Total loans</b>	<b>\$ 35,493</b>	<b>\$ 4,148</b>	<b>\$ 53,202</b>	<b>\$ 2,646</b>	<b>\$ 114,219</b>	<b>\$ 23,019</b>	<b>\$ 3,557</b>	<b>\$ 236,284</b>

December 31, 2024	Construction and Land	Farmland	Residential Real Estate	Multi - Family Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Grade 1- Lowest Risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 221	\$ 952	\$ 1,173
Grade 2- Very low risk	-	-	23	-	179	-	2	204
Grade 3- Below average	1,228	597	249	-	339	568	248	3,229
Grade 4- Average	11,339	1,464	30,754	2,747	66,975	16,863	1,662	131,804
Grade 5- Acceptable	3,869	-	9,377	-	35,696	8,646	258	57,846
Grade 6- Special mention	188	145	633	-	1,415	7	14	2,402
Grade 7- Substandard	25	-	503	-	-	288	85	901
Grade 8- Doubtful	-	-	-	-	-	40	-	40
Grade 9- Loss	-	-	-	-	-	-	-	-
<b>Total loans</b>	<b>\$ 16,649</b>	<b>\$ 2,206</b>	<b>\$ 41,539</b>	<b>\$ 2,747</b>	<b>\$ 104,604</b>	<b>\$ 26,633</b>	<b>\$ 3,221</b>	<b>\$ 197,599</b>

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**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 category and their related allowance for the periods indicated.

	December 31, 2025			December 31, 2024		
	No Allowance	With an Allowance	Total	No Allowance	With an Allowance	Total
Nonaccrual loans:						
Construction and land	\$ 21	\$ -	\$ 21	\$ 25	\$ -	\$ 25
Farmland	-	-	-	-	-	-
Residential real estate	114	-	114	343	-	343
Multi-family real estate	-	-	-	-	-	-
Commercial real estate	82	-	82	-	-	-
Commercial and industrial	104	-	104	56	172	228
Consumer	1	-	1	85	-	85
<b>Total nonaccrual loans</b>	<b>\$ 322</b>	<b>\$ -</b>	<b>\$ 322</b>	<b>\$ 509</b>	<b>\$ 172</b>	<b>\$ 681</b>

The Company recognized no income on nonaccrual loans during the year ended December 31, 2025 or 2024.

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, inventory and/or commercial vehicles. Some commercial and industrial loans are unsecured and have no underlying collateral.
- 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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**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 as of December 31, 2025 and 2024.

	<u>2025</u>	<u>2024</u>
Construction and land	\$ 21	\$ 25
Farmland	-	-
Residential real estate	114	343
Multi-family real estate	-	-
Commercial real estate	82	-
Commercial and industrial	104	228
Consumer	1	-
<b>Total collateral dependent loans on nonaccrual</b>	<u>\$ 322</u>	<u>\$ 596</u>

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**Note 3. Loans and Allowance for Credit Losses, Continued**

*Allowance for credit losses disclosures:*

The following table summarizes the activity related to the allowance for credit losses for the years ended December 31, 2025 and 2024.

Available for Credit Losses:	Construction and Land		Farmland		Residential Real Estate	
	2025	2024	2025	2024	2025	2024
Beginning balance	\$ 94	\$ 176	\$ 15	\$ 12	\$ 264	\$ 358
Charge-offs	-	-	-	-	(76)	-
Recoveries	-	-	-	-	-	-
Provisions	127	(82)	6	3	253	(94)
<b>Total</b>	<u>\$ 221</u>	<u>\$ 94</u>	<u>\$ 21</u>	<u>\$ 15</u>	<u>\$ 441</u>	<u>\$ 264</u>

  

	Multi-Family Real Estate		Commercial Real Estate		Commercial and Industrial	
	2025	2024	2025	2024	2025	2024
Beginning balance	\$ 15	\$ 15	\$ 682	\$ 772	\$ 797	\$ 700
Charge-offs	-	-	-	-	(115)	(516)
Recoveries	-	-	-	-	33	1
Provisions	-	-	89	(90)	46	612
<b>Total</b>	<u>\$ 15</u>	<u>\$ 15</u>	<u>\$ 771</u>	<u>\$ 682</u>	<u>\$ 761</u>	<u>\$ 797</u>

  

	Consumer		Unallocated		Totals	
	2025	2024	2025	2024	2025	2024
Beginning balance	\$ 90	\$ 171	\$ 108	\$ -	\$ 2,065	\$ 2,204
Charge-offs	(107)	(91)	-	-	(298)	(607)
Recoveries	33	16	-	-	66	17
Provisions	132	(6)	(108)	108	545	451
<b>Total</b>	<u>\$ 148</u>	<u>\$ 90</u>	<u>\$ -</u>	<u>\$ 108</u>	<u>\$ 2,378</u>	<u>\$ 2,065</u>

*Unfunded commitments:*

The Company estimates expected credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which are 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.

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**Note 3. Loans and Allowance for Credit Losses, Continued**

*Unfunded commitments, continued:*

	Unfunded Commitments	
	2025	2024
Beginning Balance	\$ 40	\$ 35
Charge-offs	-	-
Recoveries	-	-
Provisions	55	5
<b>Total</b>	<b>\$ 95</b>	<b>\$ 40</b>

*Loan maturity disclosures:*

Scheduled maturities and next repricing date of loans as of December 31, 2025 and 2024 are as follows:

December 31, 2025	Within	Over One Year	Greater than	Total
	One Year	through Five Years	Five Years	
Variable rate loans	\$ 17,573	\$ 27,303	\$ 15,531	\$ 60,407
Fixed rate loans	42,492	121,116	12,269	175,877
<b>Total</b>	<b>\$ 60,065</b>	<b>\$ 148,419</b>	<b>\$ 27,800</b>	<b>\$ 236,284</b>

December 31, 2024	Within	Over One Year	Greater than	Total
	One Year	through Five Years	Five Years	
Variable rate loans	\$ 17,462	\$ 21,998	\$ 15,484	\$ 54,944
Fixed rate loans	22,233	105,537	14,885	142,655
<b>Total</b>	<b>\$ 39,695</b>	<b>\$ 127,535</b>	<b>\$ 30,369</b>	<b>\$ 197,599</b>

**Note 4. Premises and Equipment**

Components of premises and equipment included in the consolidated statements of financial condition as of December 31, 2025 and 2024 are as follows:

	2025	2024
Land and land improvements	\$ 4,680	\$ 4,680
Buildings and building improvements	10,882	10,726
Furniture and equipment	2,841	2,561
Fixed assets in process	-	5
<b>Total cost</b>	<b>\$ 18,403</b>	<b>\$ 17,972</b>
Less: Accumulated depreciation	2,926	2,306
<b>Total premises and equipment, net of accumulated depreciation</b>	<b>\$ 15,477</b>	<b>\$ 15,666</b>

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**Note 4. Premises and Equipment, Continued**

There were no fixed assets in process as of December 31, 2025, as the information technology projects in process, primarily associated with opening the new Myrtle Beach branch, were completed and costs for any future projects have not yet been incurred. Fixed assets in process as of December 31, 2024, consisted primarily of costs associated with information technology projects completed in 2025.

During 2025, the Company disposed of \$5 of equipment resulting in a loss on disposal of \$2. During 2024, the Company closed its limited-service branch in Waynesboro and sold the assets for \$234 resulting in a gain on disposal of \$126.

Depreciation expense reflected in occupancy expense for the years ended December 31, 2025, and 2024 for the depreciation of property and equipment totaled \$744 and \$640, 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

Accrued property taxes related to the Company's real and personal property reported above and is included in accrued expenses and other liabilities, was \$30 as of December 31, 2025. These estimates reflect preliminary notification from the tax authorities as well as historical results from prior years.

**Note 5. Leases**

The Company is obligated under a non-cancellable operating lease for one of its branch facilities. The lease term of five years began May 1, 2025, and expires in April 2030, with three optional five-year extensions. The right-of-use asset and lease liability were \$530 and \$533, respectively as of December 31, 2025. During the twelve-month period ended December 31, 2025, the Company made cash payments in the amount of \$73 and the lease liability was reduced by \$60.

The lease expense recognized during the twelve-month period ending December 31, 2025 amounted to \$76. The weighted average remaining lease term as of December 31, 2025 is 4.33 years, and the weighted average discount rate used is 3.89%.

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**Note 5. Leases, Continued**

The following table shows future undiscounted lease payments for this operating lease as of December 31, 2025:

	<b>Operating Lease</b>
2026	\$ 127
2027	131
2028	135
2029	139
Thereafter	47
<b>Total undiscounted lease payments</b>	<b>579</b>
Less effect of discounting	46
<b>Present Value of estimated lease payments (lease liability for operating lease)</b>	<b>\$ 533</b>

**Note 6. Foreclosed Real Estate**

Activity in foreclosed real estate was as follows:

	<b>2025</b>	<b>2024</b>
<b>Balance net of valuation allowance, beginning of year</b>	<b>\$ 879</b>	<b>\$ 115</b>
Foreclosures	20	898
Sales	(128)	(144)
Write downs	(35)	-
(Loss)/gain on disposition	(17)	10
<b>Balance net of valuation allowance, end of year</b>	<b>719</b>	<b>879</b>

The valuation allowance was \$60 and \$25 as of December 31, 2025 and 2024, respectively. Expenses applicable to foreclosed assets include the following:

	<b>2025</b>	<b>2024</b>
Net loss/(gain) on sales of foreclosed real estate	\$ 17	\$ (10)
Adjustments to valuation allowance	35	-
Operating expenses	56	49
	<b>108</b>	<b>39</b>

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**Note 7. Deposits**

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

	December 31, 2025		December 31, 2024	
	Non-interest Bearing	Interest Bearing	Non-interest Bearing	Interest Bearing
<b>Deposits:</b>				
Demand deposits and NOW accounts	\$ 35,328	\$ 28,059	\$ 39,437	\$ 19,208
Savings and money market accounts	-	94,903	-	79,847
Certificates of deposits and IRA's	-	157,312	-	147,398
<b>Total</b>	<b>\$ 35,328</b>	<b>\$ 280,274</b>	<b>\$ 39,437</b>	<b>\$ 246,453</b>

The aggregate amount of time deposits exceeding \$250 as of December 31, 2025 and 2024 were \$52,576 and \$37,807, respectively. As of December 31, 2025, the scheduled maturities of all time deposits are as follows:

Maturity:	CD's \$250,000 or Less	CD's Over \$250,000	Total
2026	\$ 63,028	\$ 17,719	\$ 80,747
2027 - 2028	35,278	16,720	51,998
After 2028	6,730	17,837	24,567
<b>Total</b>	<b>\$ 105,036</b>	<b>\$ 52,276</b>	<b>\$ 157,312</b>

**Note 8. Federal Home Loan Bank Advances**

The Company has a line of credit established with the Federal Home Loan Bank of Atlanta ("FHLB") up to 30% 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 as of December 31, 2025 and 2024, respectively.

December 31, 2025	Carrying Value Pledged	Lendable Value	Amount Borrowed	Amount Available
Loans receivable	\$ 62,040	\$ 36,801	\$ 20,000	\$ 16,801
Securites available-for-sale	1,556	1,244	-	1,244
<b>Total</b>	<b>\$ 63,596</b>	<b>\$ 38,045</b>	<b>\$ 20,000</b>	<b>\$ 18,045</b>

December 31, 2024	Carrying Value Pledged	Lendable Value	Amount Borrowed	Amount Available
Loans receivable	\$ 45,503	\$ 26,042	\$ 20,000	\$ 6,042
Securites available-for-sale	10,280	8,225	-	8,225
<b>Total</b>	<b>\$ 55,783</b>	<b>\$ 34,267</b>	<b>\$ 20,000</b>	<b>\$ 14,267</b>

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**Note 8. Federal Home Loan Bank Advances, Continued**

As of December 31, 2025, and 2024, the Company had \$20 million of FHLB advances outstanding. The advances outstanding as of December 31, 2025 and 2024 were fixed rate advances. The following table is a summary of the terms and maturities of the advances outstanding as of December 31, 2025 and 2024:

Maturity:	December 31, 2025		December 31, 2024	
	Amount	Rate	Amount	Rate
November 10, 2026	\$ 5,000	4.88%	\$ 5,000	4.88%
August 21, 2028	5,000	3.47%	-	-
November 26, 2029	5,000	3.74%	5,000	3.74%
November 18, 2031	-	-	5,000	3.61%
November 15, 2034	5,000	3.66%	5,000	3.66%
<b>Total</b>	<u>\$ 20,000</u>		<u>\$ 20,000</u>	

**Note 9. 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 Company incurred \$145 of debt issuance costs related to the issuance of this debt. Debt issuance costs are being amortized over a five-year period, corresponding to the debt's full redemption date of 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%. As of December 31, 2025 and 2024, the Company had \$22 and \$51, respectively, of unamortized capitalized debt issuance costs, which are being amortized over a five-year period.

**Note 10. 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 2025 and 2024, 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 2025 and 2024, 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

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**Note 10. Derivative Financial Instruments, Continued**

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 Company 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 20*.

The Company elects to record the gross assets and liabilities of derivative financial instruments executed with the same counterparty on its consolidated statements of financial condition. Derivative assets and derivative liabilities are reported in the other assets and the accrued expenses and other liabilities lines, respectively within the consolidated statements of financial condition. The fair value of the Company's derivative financial instruments on a gross basis included in the consolidated statements of financial condition are as follows as of December 31, 2025 and 2024.

	December 31, 2025			December 31, 2024		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Derivative Assets	Derivative Liabilities		Derivative Assets	Derivative Liabilities
<b>Derivatives designated as hedging instruments:</b>						
Cash flow hedge of customer deposits	\$ 17,000	\$ -	\$ 164	\$ 17,000	\$ -	\$ 210
Fair value hedge of securities available-for-sale	31,450	1,147	285	30,113	1,081	262
<b>Total</b>	<b>\$ 48,450</b>	<b>\$ 1,147</b>	<b>\$ 449</b>	<b>\$ 47,113</b>	<b>\$ 1,081</b>	<b>\$ 472</b>

The Company previously designated an interest rate swap as a fair value hedge of changes in the fair value of a specific available-for-sale debt security attributable to changes in benchmark interest rates. The hedge relationship was terminated during the year ended December 31, 2025. In accordance with ASC 815, the cumulative basis adjustment resulting from the fair value hedge remained as an adjustment to the carrying amount of the hedged security after hedge discontinuation. During 2025, the Bank sold the security that had been the hedged item. Upon sale, the remaining unamortized basis adjustment was recognized in earnings as part of the gain or loss on sale of securities.

Balance sheet line item with hedged item included:	Amortized Cost of Hedged Assets		Cumulative Fair Value Hedging Adjustment	
	2025	2024	2025	2024
Securities available-for-sale				
Portfolio layer method <sup>(1)</sup>	\$ -	\$ 8,477	\$ 315	\$ 104
Partial term method	33,893	24,373	(847)	(911)

(1) The amount of the hedge portfolio layer used in these hedging relations on December 31, 2025 and 2024 was \$0 and \$8,174, respectively.

**Note 11. 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 instruments on the balance sheet.

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. As of December 31, 2025 and 2024, there is a reserve for unfunded commitments of \$95 and \$40, respectively, included in other liabilities. The notional value of commitments to make loans and standby letters of credit were as follows:

	2025	2024
<b>Financial instruments whose contract amounts represent credit risk</b>		
<b>as of December 31:</b>		
Commitments to extend credit	\$ 39,398	\$ 16,483
Standby letters of credit	20	20

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**Note 12. 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 after 2021 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, 2025 and 2024:

	2025	2024
<b>Current tax provision:</b>		
Federal	\$ 53	\$ 84
State	5	1
<b>Total current</b>	<b>58</b>	<b>85</b>
<b>Deferred:</b>		
Federal	24	(5)
State	(57)	(65)
<b>Total deferred</b>	<b>(33)</b>	<b>(70)</b>
Change in valuation allowance	13	11
<b>Total provision</b>	<b>\$ 38</b>	<b>\$ 26</b>

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

	2025	2024
Statutory rates	21.00%	21.00%
Increase (decrease) resulting from:		
State income taxes, net of federal benefits	-6.34%	-19.60%
Effect of tax-exempt income	-3.40%	-1.40%
Disallowed interest	0.10%	0.27%
Cash surrender value of bank-owned life insurance	-4.87%	-11.50%
Expiration of tax credits	0.00%	9.82%
Change in valuation allowance	1.97%	4.26%
Stock options	1.56%	4.47%
Nondeductible dues	1.34%	1.73%
Other	-5.43%	0.90%
<b>Total</b>	<b>5.93%</b>	<b>9.95%</b>

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**Note 12. Federal and State Income Taxes, Continued**

Deferred tax assets and liabilities included in other assets as of December 31, 2025 and 2024 consist of the following:

	2025	2024
<b>Deferred tax assets:</b>		
Allowance for credit losses - loans	\$ 471	\$ 401
Unfunded commitments	22	9
Accrued expenses	77	40
Foreclosed real estate	20	17
Deferred compensation	41	32
NOL and credits	310	362
Stock options	43	32
Net unrealized loss on available-for-sale securities	756	1,214
Other	3	9
<b>Deferred tax asset</b>	<b>1,743</b>	<b>2,116</b>
Valuation allowance	(174)	(161)
<b>Deferred tax asset, net of valuation allowance</b>	<b>1,569</b>	<b>1,955</b>
<b>Deferred tax liabilities:</b>		
Unrealized gain on hedges	167	139
Accumulated depreciation	445	392
Other	-	-
<b>Deferred tax liability</b>	<b>612</b>	<b>531</b>
<b>Net deferred tax asset</b>	<b>\$ 957</b>	<b>\$ 1,424</b>

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, 2025, management determined the majority of the deferred tax asset from continuing operations would likely be realized. The valuation allowance of \$174 relates to the Company's state operating loss and credit carryforwards for which realizability is uncertain.

As of December 31, 2025, the Company has no federal net operating losses 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, 2025, the Company had \$326 of state tax credits which expire in tax years 2026-2040.

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**Note 13. 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 as of December 31, 2025 and 2024 are as follows:

	2025	2024
Balance, beginning of year	\$ 3,027	\$ 6,638
New loans originated	620	600
REG-O status change	-	(4,118)
Repayments	(2,854)	(93)
Balance, end of year	<u>\$ 793</u>	<u>\$ 3,027</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 based on terms consistent with those prevailing at the time for comparable extensions of credit to unrelated borrowers. They did not involve more than the normal risk of collectability or present other unfavorable features.

The aggregate balance of deposits from related parties held by the Company as of December 31, 2025 and 2024 was \$5,414 and \$6,343, respectively. These deposit transactions were conducted on terms that were consistent with those prevailing at the time for comparable deposit arrangements with unrelated depositors.

**Note 14. 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 15. 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 2025, the Holding Company made a \$1,000 capital contribution to the Bank. As of December 31, 2025, approximately \$427 was available for dividend distributions without prior regulatory approval. There were no appropriations of, or restrictions on, retained earnings as of December 31, 2025.

**Note 16. 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

**Note 16. Pension and Profit-Sharing Plans, Continued**

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 \$125 and \$99 to the plan for the years ended December 31, 2025 and 2024, respectively. The contribution expenses are included in salaries and employee benefits on the consolidated statements of income.

**Note 17. Stock-Based Compensation**

The Company's 2021 Equity Incentive Plan ("the Plan"), which is director and shareholder-approved, permits the grant of share-based compensation to its employees and directors for up to 10% of shares of common stock outstanding, which equates to 338,390 shares at December 31, 2025. 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:

	<b>2025</b>
Risk-free interest rate	4.28%
Expected term	6 years
Expected stock price volatility	24.28%
Dividend yield	0%

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**Note 17. Stock-Based Compensation, Continued**

A summary of the activity in the stock option plan for 2025 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
Outstanding at beginning of year	190,250	\$ 8.33	\$ 7.30
Granted	65,300	7.84	9.22
Exercised	-	-	-
Forfeited or expired	(2,500)	8.00	5.64
Outstanding at end of year	<u>253,050</u>	8.11	7.00
Exercisable at end of year	157,000	8.20	6.01

As of December 31, 2025, there was \$153 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 2.70 years.

**Note 18. Earnings Per Share**

	2025	2024
Net income	\$ 600	\$ 233
Net income per common share:		
Basic	0.16	0.07
Diluted	0.16	0.07
Weighted average common shares:		
Basic	3,782,956	3,402,180
Effect of dilutive securities:		
Stock options	15,526	-
<b>Diluted</b>	<u>3,798,482</u>	<u>3,402,180</u>

**Note 19. 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, 2025, 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,

**Note 19. Regulatory Matters, Continued**

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 2025 and 2024, 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 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, 2025, 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.

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**Note 19. Regulatory Matters, Continued**

Actual capital amounts and ratios and required capital amounts and ratios to be considered “Well Capitalized” under Prompt Correct Action (“PCA”) regulations as part of the CBLR framework are presented in the table.

December 31, 2025	Actual		Well Capitalized Minimum PCA Regulations (CBLR Framework)	
	Capital	Ratio	Capital	Ratio
Tier 1 Capital / Average Assets				
Consolidated	\$ 28,957	8.27%	N/A	N/A
Southern Bank	\$ 33,211	9.06%	\$ 31,503	≥ 9.00%

December 31, 2024	Actual		Well Capitalized Minimum PCA Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital / Average Assets				
Consolidated	\$ 28,240	8.85%	N/A	N/A
Southern Bank	\$ 31,356	9.82%	\$ 28,275	≥ 9.00%

**Note 20. 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.

## **Note 20. Fair Value Measurements, Continued**

Generally accepted accounting principles related to fair-value measurements and disclosures establish 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 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

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**Note 20. Fair Value Measurements, Continued**

**Individually evaluated loans, continued:**

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.

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

<b>Assets</b>	<b>December 31, 2025</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Recurring fair value measurements</b>				
Securities available-for-sale	\$ 14,639	\$ 65,051	\$ -	\$ 79,690
Derivative assets	-	1,147	-	1,147
<b>Total assets measured at fair value on a recurring basis</b>	<b>\$ 14,639</b>	<b>\$ 66,198</b>	<b>\$ -</b>	<b>\$ 80,837</b>
<b>Nonrecurring fair value measurements</b>				
Individually evaluated loans	\$ -	\$ -	\$ -	\$ -
Foreclosed real estate	-	-	719	719
<b>Total assets measured at fair value on a nonrecurring basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 719</b>	<b>\$ 719</b>
<b>Liabilities</b>				
<b>Recurring fair value measurements</b>				
Derivative liabilities	\$ -	\$ 449	\$ -	\$ 449
<b>Total liabilities measured at fair value on a recurring basis</b>	<b>\$ -</b>	<b>\$ 449</b>	<b>\$ -</b>	<b>\$ 449</b>

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Note 20. Fair Value Measurements, Continued

Derivative financial instruments, continued:

<u>Assets</u>	December 31, 2024			
	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements</b>				
Securities available-for-sale	\$ 14,369	\$ 80,079	\$ -	\$ 94,448
Derivative assets	-	1,081	-	1,081
<b>Total assets measured at fair value on a recurring basis</b>	<b>\$ 14,369</b>	<b>\$ 81,160</b>	<b>\$ -</b>	<b>\$ 95,529</b>
<b>Nonrecurring fair value measurements</b>				
Individually evaluated loans	\$ -	\$ -	\$ 161	\$ 161
Foreclosed real estate	-	-	879	879
<b>Total assets measured at fair value on a nonrecurring basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,040</b>	<b>\$ 1,040</b>
<b>Liabilities</b>				
<b>Recurring fair value measurements</b>				
Derivative liabilities	\$ -	\$ 472	\$ -	\$ 472
<b>Total liabilities measured at fair value on a recurring basis</b>	<b>\$ -</b>	<b>\$ 472</b>	<b>\$ -</b>	<b>\$ 472</b>

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**Note 21. Condensed Financial Information of Parent Corporation**

**Condensed Balance Sheets**

	2025	2024
<b>Assets</b>		
Cash and due from banks	\$ 735	\$ 1,789
Investment in bank subsidiary	31,427	28,078
Other assets	45	91
Total assets	<u>\$ 32,207</u>	<u>\$ 29,958</u>
<b>Liabilities</b>		
Subordinated debt	\$ 4,978	\$ 4,949
Accrued interest payable	47	47
Other accrued liabilities	9	-
Total liabilities	<u>\$ 5,034</u>	<u>\$ 4,996</u>
<b>Shareholders' Equity</b>		
Preferred stock	\$ -	\$ -
Common stock	34	34
Additional paid-in capital	19,915	19,798
Retained earnings	9,008	8,408
Accumulated other comprehensive loss	(1,784)	(3,278)
Total shareholders' equity	<u>27,173</u>	<u>24,962</u>
Total liabilities and shareholders' equity	<u>\$ 32,207</u>	<u>\$ 29,958</u>

**Condensed Statements of Income**

	2025	2024
<b>Operating Income</b>		
Interest expense	\$ (273)	\$ (273)
Other operating expenses	(51)	(74)
Total expenses	<u>(324)</u>	<u>(347)</u>
Income tax benefit	69	73
Loss before equity in undistributed net income of subsidiary	(255)	(274)
Equity in undistributed net income of bank subsidiary	855	507
Net income	<u>\$ 600</u>	<u>\$ 233</u>

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**Note 21. Condensed Financial Information of Parent Corporation, Continued**

**Condensed Statements of Cash Flows**

	<b>2025</b>	<b>2024</b>
<b><u>Cash flows from operating activities</u></b>		
Net income	\$ 600	\$ 233
Adjustments to reconcile net income to net cash used by operating activities:		
Subsidiary's undistributed net income	(855)	(507)
Amortization of debt issuance costs	29	30
Stock based compensation	93	107
Stock issued in lieu of compensation	24	26
Decrease/(increase) in other assets	46	(12)
Increase/(decrease) in other liabilities	9	(1)
Net cash used for operating activities	<u>(54)</u>	<u>(124)</u>
<b><u>Cash flows from investing activities</u></b>		
Additional investment in bank subsidiary	(1,000)	(5,000)
Net cash used for investing activities	<u>(1,000)</u>	<u>(5,000)</u>
<b><u>Cash flows from financing activities</u></b>		
Net proceeds from issuance of common stock	-	5,052
Net cash provided by financing activities	<u>-</u>	<u>5,052</u>
Net (decrease) increase in cash and cash equivalents	(1,054)	(72)
Cash and cash equivalents, beginning of year	1,789	1,861
Cash and cash equivalents, end of year	<u>\$ 735</u>	<u>\$ 1,789</u>
<b><u>Supplemental disclosure of cash flow information</u></b>		
Cash paid for:		
Interest	\$ 244	\$ 273
Income taxes, net of refunds	(85)	5
Noncash investing and financing activities:		
Decrease in accumulated other comprehensive loss:		
Investment securities available-for-sale	\$ (1,459)	\$ 568
Derivatives and hedges	(35)	176