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DELTA REPORT

10-Q

BAYFIRST FINANCIAL CORP.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1364
CHANGES	380
DELETIONS	588
ADDITIONS	396

REFINITIV

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly fiscal period ended September 30, 2023 March 31, 2024

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-41068

BAYFIRST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Florida	**59-3665079**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Central Avenue St. Petersburg, Florida	**33701**
(Address of Principal Executive Offices)	(Zip Code)

(727) 440-6848

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	BAFN	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	x
		Emerging growth company	x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ☒

The registrant had outstanding 4,110,650 4,134,459 shares of common stock as of November 6, 2023 May 7, 2024.

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Glossary of Acronyms and Abbreviations

The acronyms and abbreviations identified below may be used throughout this Quarterly Report on Form 10-Q or in our other SEC filings. You may find it helpful to refer back to this page while reading this report.

ACL: Allowance for Credit Losses	FDIA: Federal Deposit Insurance Act
AFS: Available for Sale	FDIC: Federal Deposit Insurance Corporation
AIO: Architecture, Infrastructure, and Operations	FFIEC: Federal Financial Institutions Examination Council
ALCO: Asset-Liability Committee AFS: Available for Sale	FHLB: Federal Home Loan Bank
ALLL: Allowance for Loan Losses AIO: Architecture, Infrastructure, and Operations	FNBB: First National Bankers Bank
ALCO: Asset-Liability Committee	FOMC: Federal Open Market Committee
AOCI: Accumulated Other Comprehensive Income	FRB: Federal Reserve Bank
ASC: FASB Accounting Standards Codification	FVO: Fair Value Option
ASU: FASB Accounting Standards Update	GAAP: Generally Accepted Accounting Principles
BHCA: Bank Holding Company Act of 1956, as amended	HFI: Held for Investment
BOLI: Bank Owned Life Insurance	HTM: Held to Maturity
BSA: Bank Secrecy Act of 1970	IRA: Individual Retirement Account
CAA: Consolidated Appropriations CARES Act: Coronavirus Aid, Relief, and Economic Security Act	ISO: Information Security Officer
CBLR: Community Bank Leverage Ratio	IT: Information Technology
CDARS: Certificate of Deposit Account Registry Services	JOBS Act: Jumpstart Our Business Startups Act of 2012
CARES Act: Coronavirus Aid, Relief, and Economic Security Act CECL: Current Expected Credit Losses	LGD: Loss Given Default
CBLR: Community Bank Leverage Ratio CEO: Chief Executive Officer	LHFS: Loans Held for Sale
CDARS: Certificate of Deposit Account Registry ServicesCET1: Common Equity Tier 1 Capital	MMDA: Money Market Deposit Account
CECL: Current Expected Credit Losses CFPB: Consumer Financial Protection Bureau	NOW: Negotiable Order of Withdrawal
CEO: Chief Executive Officer C&I: Commercial and Industrial	NSPP: Non-Qualified Stock Purchase Plan
CET1: Common Equity Tier 1 CapitalCRO: Chief Risk Officer	OCC: Office of the Comptroller of the Currency
CFPB: Consumer Financial Protection Bureau	OLC: CTO: Chief Technology Officer Loan Committee
C&I: Commercial and Industrial	OREO: Other Real Estate Owned
CIK: Central Index Key	OTTI: Other-Than-Temporary Impairment
COVID-19: Coronavirus Disease 2019	PCAOB: Public Company Accounting Oversight Board
DCLC: Directors' Credit and Loan Committee	PD: Probability of Default
DEI: Diversity, Equity, and Inclusion	PPP: Paycheck Protection Program OTTI: Other-Than-Temporary Impairment
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	PPPLF: Paycheck Protection Program Liquidity Facility PCAOB: Public Company Accounting Oversight Board
DRIP: Dividend Reinvestment Plan	QIB: Qualified Institutional Buyer PD: Probability of Default
EGC: Emerging Growth Company	ROU: Right of Use PPP: Paycheck Protection Program
EPS: Earnings per Share	SBA: Small Business Administration PPPLF: Paycheck Protection Program Liquidity Facility
Equity Plan: The Amended and Restated 2017 Equity Incentive Plan	SEC: U.S. Securities and Exchange Commission ROU: Right of Use
ESG: Environmental, Social, and Governance	SOFR: Secured Overnight Financing Rate SBA: Small Business Administration
ESOP: Employee Stock Ownership Plan	SEC: U.S.: United States Securities and Exchange Commission
ESPP: Employee Stock Purchase Plan	SOFR: Secured Overnight Financing Rate
Exchange Act: Securities Exchange Act of 1934	U.S.: United States
FASB: Financial Accounting Standards Board	USDA: United States Department of Agriculture
Exchange Act: Securities Exchange FBCA: Florida Business Corporation Act of 1934	USDA B&I: United States Department of Agriculture Business and Industry
FASB: Financial Accounting Standards Board FDIA: Federal Deposit Insurance Act	WARM: Weighted Average Remaining Life
FBCA: Florida Business FDIC: Federal Deposit Insurance Corporation Act	

BAYFIRST FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

Part I - Financial Information
Item 1. 8. Financial Statements

		September 30, 2023	December 31, 2022
March 31, 2024		March 31, 2024	December 31, 2023 [(1)]
		(Unaudited)	
ASSETS	**ASSETS**		
ASSETS			
ASSETS			
Cash and due from banks			
Cash and due from banks			
Cash and due from banks	Cash and due from banks	$ 4,501	$ 3,649
Interest-bearing deposits in banks	Interest-bearing deposits in banks	108,052	62,397
Interest-bearing deposits in banks			
Interest-bearing deposits in banks			
Cash and cash equivalents			
Cash and cash equivalents			
Cash and cash equivalents	Cash and cash equivalents	112,553	66,046
Time deposits in banks	Time deposits in banks	4,631	4,881
Investment securities available for sale, at fair value (amortized cost: $44,569 and $47,374 at September 30, 2023 and December 31, 2022, respectively)		39,683	42,349
Investment securities held to maturity, at amortized cost, net of allowance for credit losses of $19 and $0 (fair value: $2,282 and $4,755 at September 30, 2023 and December 31, 2022, respectively)		2,482	5,002
Time deposits in banks			
Time deposits in banks			
Investment securities available for sale, at fair value (amortized cost: $46,816 and $43,597 at March 31, 2024 and December 31, 2023, respectively)			
Investment securities available for sale, at fair value (amortized cost: $46,816 and $43,597 at March 31, 2024 and December 31, 2023, respectively)			
Investment securities available for sale, at fair value (amortized cost: $46,816 and $43,597 at March 31, 2024 and December 31, 2023, respectively)			
Investment securities held to maturity, at amortized cost, net of allowance for credit losses of $14 and $17 (fair value: $2,352 and $2,263 at March 31, 2024 and December 31, 2023, respectively)			
Investment securities held to maturity, at amortized cost, net of allowance for credit losses of $14 and $17 (fair value: $2,352 and $2,263 at March 31, 2024 and December 31, 2023, respectively)			
Investment securities held to maturity, at amortized cost, net of allowance for credit losses of $14 and $17 (fair value: $2,352 and $2,263 at March 31, 2024 and December 31, 2023, respectively)			
Nonmarketable equity securities			
Nonmarketable equity securities			
Nonmarketable equity securities	Nonmarketable equity securities	4,250	4,037

Government guaranteed loans held for sale	Government guaranteed loans held for sale	1,855	—
Government guaranteed loans held for investment, at fair value		84,178	27,078
Loans held for investment, at amortized cost, net of allowance for credit losses of $13,365 and $9,046 at September 30, 2023 and December 31, 2022, respectively		780,904	692,528
Government guaranteed loans held for sale			
Government guaranteed loans held for sale			
Government guaranteed loans HFI, at fair value			
Government guaranteed loans HFI, at fair value			
Government guaranteed loans HFI, at fair value			
Loans HFI, at amortized cost, net of allowance for credit losses of $13,906 and $13,497 at March 31, 2024 and December 31, 2023, respectively			
Loans HFI, at amortized cost, net of allowance for credit losses of $13,906 and $13,497 at March 31, 2024 and December 31, 2023, respectively			
Loans HFI, at amortized cost, net of allowance for credit losses of $13,906 and $13,497 at March 31, 2024 and December 31, 2023, respectively			
Accrued interest receivable			
Accrued interest receivable			
Accrued interest receivable	Accrued interest receivable	6,907	4,452
Premises and equipment, net	Premises and equipment, net	37,992	35,440
Premises and equipment, net			
Premises and equipment, net			
Loan servicing rights	Loan servicing rights	14,216	10,906
Deferred income tax asset		414	980
Loan servicing rights			
Loan servicing rights			
Right-of-use operating lease assets			
Right-of-use operating lease assets			
Right-of-use operating lease assets	Right-of-use operating lease assets	2,594	3,177
Bank owned life insurance	Bank owned life insurance	25,630	25,159
Bank owned life insurance			
Bank owned life insurance			
Other assets			
Other assets			
Other assets	Other assets	15,292	15,649
Assets from discontinued operations	Assets from discontinued operations	398	1,211
Assets from discontinued operations			

Assets from discontinued operations			
Total assets			
Total assets			
Total assets	**Total assets**	$1,133,979	$938,895
LIABILITIES AND SHAREHOLDERS' EQUITY	**LIABILITIES AND SHAREHOLDERS' EQUITY**		
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Liabilities:			
Liabilities:	**Liabilities:**		
Noninterest-bearing deposits	Noninterest-bearing deposits	$ 98,008	$ 93,235
Noninterest-bearing deposits			
Noninterest-bearing deposits			
Interest-bearing transaction accounts			
Interest-bearing transaction accounts			
Interest-bearing transaction accounts	Interest-bearing transaction accounts	267,404	202,656
Savings and money market deposits	Savings and money market deposits	350,110	363,053
Savings and money market deposits			
Savings and money market deposits			
Time deposits			
Time deposits			
Time deposits	Time deposits	302,274	136,126
Total deposits	Total deposits	1,017,796	795,070
FRB and FHLB borrowings		—	25,000
Total deposits			
Total deposits			
FHLB borrowings			
FHLB borrowings			
FHLB borrowings			
Subordinated debentures	Subordinated debentures	5,947	5,992
Subordinated debentures			
Subordinated debentures			
Notes payable			
Notes payable			
Notes payable	Notes payable	2,503	2,844
Accrued interest payable	Accrued interest payable	632	704
Accrued interest payable			
Accrued interest payable			
Operating lease liabilities	Operating lease liabilities	2,812	3,538
Operating lease liabilities			
Operating lease liabilities			
Deferred income tax liabilities			
Deferred income tax liabilities			
Deferred income tax liabilities			
Accrued expenses and other liabilities			
Accrued expenses and other liabilities			
Accrued expenses and other liabilities	Accrued expenses and other liabilities	9,409	12,205

Liabilities from discontinued operations	Liabilities from discontinued operations	715	1,658
Liabilities from discontinued operations			
Liabilities from discontinued operations			
Total liabilities	**Total liabilities**	1,039,814	847,011
Total liabilities			
Total liabilities			

BAYFIRST FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS CONTINUED
(Dollars in thousands, except per share data)

	September 30, 2023	December 31, 2022		
March 31, 2024			March 31, 2024	December 31, 2023 [1]
	(Unaudited)			
Shareholders' equity:				
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding at September 30, 2023 and December 31, 2022; aggregate liquidation preference of $6,395	6,161	6,161		
Preferred stock, Series B; no par value, 20,000 shares authorized, 3,210 shares issued and outstanding at September 30, 2023 and December 31, 2022; aggregate liquidation preference of $3,210	3,123	3,123		
Preferred stock, Series C; no par value, 10,000 shares authorized, 1,835 shares issued and outstanding at September 30, 2023 and no shares issued and outstanding at December 31, 2022; aggregate liquidation preference of $1,835 at September 30, 2023	1,835	—		
Common stock and additional paid-in capital; no par value, 15,000,000 shares authorized, 4,110,650 and 4,042,474 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	54,500	53,023		
Shareholders' equity:				
Shareholders' equity:				
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $6,395				
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $6,395				

Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $6,395			
Preferred stock, Series B; no par value, 20,000 shares authorized, 3,210 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $3,210			
Preferred stock, Series B; no par value, 20,000 shares authorized, 3,210 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $3,210			
Preferred stock, Series B; no par value, 20,000 shares authorized, 3,210 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $3,210			
Preferred stock, Series C; no par value, 10,000 shares authorized, 6,446 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $6,446			
Preferred stock, Series C; no par value, 10,000 shares authorized, 6,446 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $6,446			
Preferred stock, Series C; no par value, 10,000 shares authorized, 6,446 shares issued and outstanding at March 31, 2024 and December 31, 2023; aggregate liquidation preference of $6,446			
Common stock and additional paid-in capital; no par value, 15,000,000 shares authorized, 4,134,914 and 4,110,470 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively			
Common stock and additional paid-in capital; no par value, 15,000,000 shares authorized, 4,134,914 and 4,110,470 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively			
Common stock and additional paid-in capital; no par value, 15,000,000 shares authorized, 4,134,914 and 4,110,470 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively			
Accumulated other comprehensive loss, net			
Accumulated other comprehensive loss, net			
Accumulated other comprehensive loss, net	Accumulated other comprehensive loss, net	(3,621)	(3,724)
Unearned compensation	Unearned compensation	(1,242)	(178)
Unearned compensation			
Unearned compensation			
Retained earnings			

Retained earnings

		2023	2022
Retained earnings	Retained earnings	33,409	33,479
Total shareholders' equity	Total shareholders' equity	94,165	91,884
Total liabilities and shareholders' equity	**Total liabilities and shareholders' equity**	$1,133,979	$938,895

Total shareholders' equity
Total shareholders' equity
Total liabilities and shareholders' equity
Total liabilities and shareholders' equity

Derived from audited consolidated financial statements

See accompanying notes.

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BAYFIRST FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in thousands, except per share data)

Three Months Ended March 31,
Three Months Ended March 31,
Three Months Ended March 31,
2024
2024
2024

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest income:				
Loans, including fees	$ 16,032	$ 10,650	$ 45,475	$ 24,812
Interest-bearing deposits in banks and other	1,588	634	4,188	1,234
Total interest income	17,620	11,284	49,663	26,046
Interest expense:				
Deposits	9,055	1,856	21,076	4,133
Borrowings	172	258	1,033	487

Interest income:
Interest income:
Loans, including fees
Loans, including fees
Interest-bearing deposits in banks and other
Interest-bearing deposits in banks and other
Total interest income
Total interest income
Interest expense:
Interest expense:
Deposits
Deposits
Borrowings
Borrowings

Total interest expense	Total interest expense	9,227	2,114	22,109	4,620
Total interest expense					
Total interest expense					
Net interest income					
Net interest income					
Net interest income	Net interest income	8,393	9,170	27,554	21,426
Provision for credit losses	**Provision for credit losses**	3,001	750	7,708	(1,400)
Provision for credit losses					
Provision for credit losses					
Net interest income after provision for credit losses	Net interest income after provision for credit losses	5,392	8,420	19,846	22,826
Net interest income after provision for credit losses					
Net interest income after provision for credit losses					
Noninterest income:					
Noninterest income:					
Noninterest income:	**Noninterest income:**				
Loan servicing income, net	Loan servicing income, net	760	620	2,149	1,508
Loan servicing income, net					
Loan servicing income, net					
Gain on sale of government guaranteed loans, net					
Gain on sale of government guaranteed loans, net					
Gain on sale of government guaranteed loans, net	Gain on sale of government guaranteed loans, net	7,139	7,446	17,576	15,915
Service charges and fees	Service charges and fees	408	347	1,166	951
Service charges and fees					
Service charges and fees					
Government guaranteed loans fair value gain					
Government guaranteed loans fair value gain					
Government guaranteed loans fair value gain	Government guaranteed loans fair value gain	4,543	999	11,021	3,510
Other noninterest income	Other noninterest income	1,829	392	3,152	1,262
Other noninterest income					
Other noninterest income					
Total noninterest income					
Total noninterest income					
Total noninterest income	Total noninterest income	14,679	9,804	35,064	23,146
Noninterest expense:	**Noninterest expense:**				
Noninterest expense:					
Noninterest expense:					
Salaries and benefits	Salaries and benefits	7,912	6,758	23,527	21,177

Salaries and benefits					
Salaries and benefits					
Bonus, commissions, and incentives					
Bonus, commissions, and incentives					
Bonus, commissions, and incentives	Bonus, commissions, and incentives	1,406	883	3,515	1,833
Occupancy and equipment	Occupancy and equipment	1,262	1,070	3,608	3,010
Occupancy and equipment					
Occupancy and equipment					
Data processing					
Data processing					
Data processing	Data processing	1,526	1,247	4,189	3,486
Marketing and business development	Marketing and business development	929	662	2,696	2,100
Marketing and business development					
Marketing and business development					
Professional services					
Professional services					
Professional services	Professional services	816	956	2,587	3,089
Loan origination and collection	Loan origination and collection	1,981	1,068	4,697	2,486
Loan origination and collection					
Loan origination and collection					
Employee recruiting and development	Employee recruiting and development	543	518	1,667	1,653
Employee recruiting and development					
Employee recruiting and development					
Regulatory assessments					
Regulatory assessments					
Regulatory assessments	Regulatory assessments	284	110	615	299
Other noninterest expense	Other noninterest expense	768	886	2,140	2,586
Other noninterest expense					
Other noninterest expense					
Total noninterest expense					
Total noninterest expense					
Total noninterest expense	Total noninterest expense	17,427	14,158	49,241	41,719
Income from continuing operations before income taxes	**Income from continuing operations before income taxes**	2,644	4,066	5,669	4,253
Income from continuing operations before income taxes					
Income from continuing operations before income taxes					
Income tax expense from continuing operations	**Income tax expense from continuing operations**	674	983	1,415	888
Income tax expense from continuing operations					
Income tax expense from continuing operations					
Net income from continuing operations					
Net income from continuing operations					

Net income from continuing operations	**Net income from continuing operations**	1,970	3,083	4,254	3,365
Loss from discontinued operations before income taxes	Loss from discontinued operations before income taxes	(62)	(5,973)	(275)	(6,706)
Loss from discontinued operations before income taxes					
Loss from discontinued operations before income taxes					
Income tax benefit from discontinued operations					
Income tax benefit from discontinued operations					
Income tax benefit from discontinued operations	Income tax benefit from discontinued operations	(15)	(1,488)	(68)	(1,670)
Net loss from discontinued operations	**Net loss from discontinued operations**	(47)	(4,485)	(207)	(5,036)
Net loss from discontinued operations					
Net loss from discontinued operations					
Net income (loss)		1,923	(1,402)	4,047	(1,671)
Net income					
Net income					
Net income					
Preferred stock dividends	**Preferred stock dividends**	208	208	624	624
Net income available to (loss attributable to) common shareholders		$ 1,715	$ (1,610)	$ 3,423	$ (2,295)
Preferred stock dividends					
Preferred stock dividends					
Net income available to common shareholders					
Net income available to common shareholders					
Net income available to common shareholders					

BAYFIRST FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME CONTINUED (UNAUDITED) CONTINUED
(Dollars in thousands, except per share data)

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		2024			
		2024			
		2024			
Basic earnings (loss) per common share:					
Basic earnings (loss) per common share:					
Basic earnings (loss) per common share:	**Basic earnings (loss) per common share:**				

Continuing operations	Continuing operations	$ 0.43	$ 0.71	$ 0.89	$ 0.68
Continuing operations					
Continuing operations					
Discontinued operations	Discontinued operations	(0.01)	(1.11)	(0.05)	(1.25)
Total basic earnings (loss) per common share		$ 0.42	$ (0.40)	$ 0.84	$ (0.57)
Discontinued operations					
Discontinued operations					
Total basic earnings per common share					
Total basic earnings per common share					
Total basic earnings per common share					
Diluted earnings (loss) per common share:					
Diluted earnings (loss) per common share:					
Diluted earnings (loss) per common share:	**Diluted earnings (loss) per common share:**				
Continuing operations	Continuing operations	$ 0.42	$ 0.68	$ 0.88	$ 0.67
Continuing operations					
Continuing operations					
Discontinued operations	Discontinued operations	(0.01)	(1.03)	(0.05)	(1.15)
Total diluted earnings (loss) per common share		$ 0.41	$ (0.35)	$ 0.83	$ (0.48)
Discontinued operations					
Discontinued operations					
Total diluted earnings per common share					
Total diluted earnings per common share					
Total diluted earnings per common share					

See accompanying notes.

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BAYFIRST FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (loss)	$ 1,923	$ (1,402)	$ 4,047	$ (1,671)
	Three Months Ended March 31,			
	Three Months Ended March 31,			
	Three Months Ended March 31,			
	2024			
	2024			
	2024			

Net income

Net income

Net income

Net unrealized gains (losses) on investment securities available for sale

Net unrealized gains (losses) on investment securities available for sale

Net unrealized gains (losses) on investment securities available for sale	Net unrealized gains (losses) on investment securities available for sale	(516)	(1,628)	139	(4,530)
Deferred income tax (expense) benefit	Deferred income tax (expense) benefit	134	422	(36)	1,170

Deferred income tax (expense) benefit

Deferred income tax (expense) benefit

Other comprehensive income (loss), net	Other comprehensive income (loss), net	(382)	(1,206)	103	(3,360)
Comprehensive income (loss)		$ 1,541	$ (2,608)	$ 4,150	$ (5,031)

Other comprehensive income (loss), net

Other comprehensive income (loss), net

Comprehensive income

Comprehensive income

Comprehensive income

See accompanying notes.

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BAYFIRST FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)

	Preferred Stock, Series A	Preferred Stock, Series B	Preferred Stock, Series C	Common Stock and Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at July 1, 2022	$ 6,161	$ 3,123	$ —	$ 51,965	$ (2,574)	$ 34,620	$ 93,295

Preferred Stock, Series A

Preferred Stock, Series A

	Preferred Stock, Series A	Preferred Stock, Series B	Preferred Stock, Series C	Common Stock and Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at January 1, 2023							
Net loss	—	—	—	—	—	(1,402)	(1,402)

Net loss	Net loss	—	—	—	—	—	(1,402)	(1,402)

Impact of ASC 326 Adoption

Issuance of common stock under:	Issuance of common stock under:	

Non-qualified stock purchase plan

Non-qualified stock purchase plan

Non-qualified stock purchase plan	Non-qualified stock purchase plan	—	—	—	211	—	—	211
Dividend reinvestment plan	Dividend reinvestment plan	—	—	—	84	—	—	84
Exercise of stock options, net	Exercise of stock options, net	—	—	—	7	—	—	7
Exercise of stock options, net								
Exercise of stock options, net								
Stock-based awards - common stock:	Stock-based awards - common stock:							
Stock-based awards - common stock:								
Stock-based awards - common stock:								
Restricted stock expense, net of tax impact								
Restricted stock expense, net of tax impact								
Restricted stock expense, net of tax impact								
Stock option expense								
Other comprehensive income, net								
Other comprehensive income, net								
Other comprehensive income, net								
Dividends declared on:								
Preferred stock								
Preferred stock								
Preferred stock								
Common stock ($0.08 per share)								
Balance at March 31, 2023								
Balance at January 1, 2024								
Balance at January 1, 2024								
Balance at January 1, 2024								
Net income								
Unearned ESOP shares allocation								
Unearned ESOP shares allocation								
Unearned ESOP shares allocation								
Stock-based awards - common stock:								
Stock-based awards - common stock:								
Stock-based awards - common stock:								
Restricted stock expense, net of tax impact								
Restricted stock expense, net of tax impact								
Restricted stock expense, net of tax impact	Restricted stock expense, net of tax impact	—	—	—	66	—	—	66

Stock option expense	Stock option expense	—	—	—	114	—	—	114
Other comprehensive loss, net	Other comprehensive loss, net	—	—	—	—	(1,206)	—	(1,206)
Dividends declared on:								
Preferred stock		—	—	—	—	—	(208)	(208)
Common stock ($0.08 per share)		—	—	—	—	—	(324)	(324)
Balance at September 30, 2022		$ 6,161	$ 3,123	$ —	$ 52,447	$ (3,780)	$32,686	$90,637
Balance at July 1, 2023		$ 6,161	$ 3,123	$ —	$ 52,998	$ (3,239)	$32,022	$91,065
Net income		—	—	—	—	—	1,923	1,923
Issuance of common stock under:								
Non-qualified stock purchase plan		—	—	—	21	—	—	21
Dividend reinvestment plan		—	—	—	75	—	—	75
Repurchase of common stock		—	—	—	(3)	—	—	(3)
Exercise of stock options, net		—	—	—	(49)	—	—	(49)
Issuance of preferred stock, net		—	—	1,835	—	—	—	1,835
Stock-based awards - common stock:								
Restricted stock expense, net of tax impact		—	—	—	191	—	—	191
Stock option expense		—	—	—	25	—	—	25
Other comprehensive loss, net								
Other comprehensive loss, net	Other comprehensive loss, net	—	—	—	—	(382)	—	(382)
Dividends declared on:	Dividends declared on:			—				
Preferred stock	Preferred stock	—	—	—	—	—	(208)	(208)
Preferred stock								
Preferred stock								
Common stock ($0.08 per share)	Common stock ($0.08 per share)	—	—	—	—	—	(328)	(328)
Balance at September 30, 2023		$ 6,161	$ 3,123	$ 1,835	$ 53,258	$ (3,621)	$33,409	$94,165
Balance at March 31, 2024								

See accompanying notes.

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BAYFIRST FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(Dollars in thousands, except per share data)

	Preferred Stock, Series A	Preferred Stock, Series B	Preferred Stock, Series C	Common Stock and Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at January 1, 2022	$ 6,161	$ 3,123	$ —	$ 51,479	$ (420)	$ 35,947	$ 96,290
Net loss	—	—	—	—	—	(1,671)	(1,671)
Issuance of common stock under:							
Non-qualified stock purchase plan	—	—	—	232	—	—	232
Dividend reinvestment plan	—	—	—	167	—	—	167
Repurchase of common stock	—	—	—	(49)	—	—	(49)
Exercise of stock options,net	—	—	—	12	—	—	12
Issuance of common stock, net	—	—	—	13	—	—	13

Stock-based awards - common stock:							
Restricted stock expense, net of tax impact	—	—	—	307	—	—	307
Stock option expense	—	—	—	286	—	—	286
Other comprehensive loss, net	—	—	—	—	(3,360)	—	(3,360)
Dividends declared on:			—				
Preferred stock	—	—	—	—	—	(624)	(624)
Common stock ($0.24 per share)	—	—	—	—	—	(966)	(966)
Balance at September 30, 2022	$ 6,161	$ 3,123	$ —	$ 52,447	$ (3,780)	$ 32,686	$ 90,637
Balance at January 1, 2023	$ 6,161	$ 3,123	$ —	$ 52,845	$ (3,724)	$ 33,479	$ 91,884
Net income	—	—	—	—	—	4,047	4,047
Impact of ASC 326 Adoption	—	—	—	—	—	(2,508)	(2,508)
Issuance of common stock under:							
Non-qualified stock purchase plan	—	—	—	206	—	—	206
Dividend reinvestment plan	—	—	—	159	—	—	159
Issuance of preferred stock, net	—	—	1,835	—	—	—	1,835
Repurchase of common stock	—	—	—	(13)	—	—	(13)
Exercise of stock options, net	—	—	—	(49)	—	—	(49)
Unearned ESOP shares allocation	—	—	—	(329)	—	—	(329)
Stock-based awards - common stock:							
Restricted stock expense, net of tax impact	—	—	—	356	—	—	356
Stock option expense	—	—	—	83	—	—	83
Other comprehensive income, net	—	—	—	—	103	—	103
Dividends declared on:							
Preferred stock	—	—	—	—	—	(624)	(624)
Common stock ($0.24 per share)	—	—	—	—	—	(985)	(985)
Balance at September 30, 2023	$ 6,161	$ 3,123	$ 1,835	$ 53,258	$ (3,621)	$ 33,409	$ 94,165

See accompanying notes.

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BAYFIRST FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) CONTINUED
(Dollars in thousands)

		Nine Months Ended September 30,			
		2023	2022		
	Three Months Ended March 31,				Three Months Ended March 31,
	2024			2024	2023
Cash flows from operating activities:	**Cash flows from operating activities:**				
Net income from continuing operations	Net income from continuing operations	$ 4,254	$ 3,365		
Net income from continuing operations					
Net income from continuing operations					
Net loss from discontinued operations	Net loss from discontinued operations	(207)	(5,036)		
Net income (loss)		4,047	(1,671)		

Adjustments to reconcile net income (loss) to net cash from operating activities:			
Net income			
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation of fixed assets			
Depreciation of fixed assets			
Depreciation of fixed assets	Depreciation of fixed assets	1,744	1,247
Net securities premium amortization	Net securities premium amortization	69	40
Amortization of debt issuance costs	Amortization of debt issuance costs	5	5
Amortization of premium on loans purchased, net	Amortization of premium on loans purchased, net	182	81
Provision for credit losses	Provision for credit losses	7,708	(1,400)
Accretion of discount on unguaranteed loans	Accretion of discount on unguaranteed loans	(2,302)	(2,087)
Deferred tax expense (benefit)		1,361	(313)
Deferred tax expense			
Origination of government guaranteed loans held for sale	Origination of government guaranteed loans held for sale	(4,276)	(2,018)
Proceeds from sales of government guaranteed loans held for sale	Proceeds from sales of government guaranteed loans held for sale	350,521	268,250
Net gains on sales of government guaranteed loans	Net gains on sales of government guaranteed loans	(17,576)	(15,915)
Change in fair value of government guaranteed loans held for investment, at fair value		(11,021)	(3,510)
Change in fair value of government guaranteed loans HFI, at fair value			
Change in fair value of government guaranteed loans HFI, at fair value			

Change in fair value of government guaranteed loans HFI, at fair value			
Amortization of loan servicing rights	Amortization of loan servicing rights	3,080	2,216
Net gain on sale of other real estate owned		(355)	—
Non-qualified stock purchase plan expense			
Non-qualified stock purchase plan expense			
Non-qualified stock purchase plan expense	Non-qualified stock purchase plan expense	20	78
Stock based compensation expense	Stock based compensation expense	439	515
Income from bank owned life insurance	Income from bank owned life insurance	(471)	(457)
Income from bank owned life insurance			
Income from bank owned life insurance			
Changes in:	Changes in:		
Changes in:			
Changes in:			
Accrued interest receivable			
Accrued interest receivable			
Accrued interest receivable	Accrued interest receivable	(2,455)	(257)
Other assets	Other assets	883	227
Accrued interest payable	Accrued interest payable	(72)	(90)
Other liabilities	Other liabilities	(3,856)	(873)
Net cash provided by operating activities of continuing operations	Net cash provided by operating activities of continuing operations	327,882	249,104
Net cash provided by (used in) operating activities of discontinued operations		(337)	34,333
Net cash used in operating activities of discontinued operations			

Net cash provided by operating activities	Net cash provided by operating activities	327,545	283,437
Cash flows from investing activities:	**Cash flows from investing activities:**		
Purchase of investment securities available for sale	Purchase of investment securities available for sale	—	(20,326)
Purchase of investment securities available for sale			
Purchase of investment securities available for sale			
Principal payments on investment securities available for sale	Principal payments on investment securities available for sale	2,736	2,234
Purchase of investment securities held to maturity		—	(3,568)
Principal payments on investment securities held to maturity	Principal payments on investment securities held to maturity	1	62
Call of investment securities held to maturity		2,500	—
Net (purchase) sale of nonmarketable equity securities		(213)	296
Purchase of time deposits in banks		—	(2,500)
Principal payments on investment securities held to maturity			
Principal payments on investment securities held to maturity			
Net purchase of nonmarketable equity securities			
Net purchase of nonmarketable equity securities			
Net purchase of nonmarketable equity securities			
Maturity of time deposits in banks			
Maturity of time deposits in banks			
Maturity of time deposits in banks	Maturity of time deposits in banks	250	—

Purchase of government guaranteed and consumer loans	Purchase of government guaranteed and consumer loans	(106,413)	(50,689)
Purchase of government guaranteed and consumer loans			
Purchase of government guaranteed and consumer loans			
Loan (originations) and payments, net	Loan (originations) and payments, net	(373,529)	(298,083)
Purchase of premises and equipment	Purchase of premises and equipment	(6,199)	(4,935)
Proceeds on sales of other real estate owned		2,314	—
Net cash used in investing activities	Net cash used in investing activities	(478,553)	(377,509)
Net cash used in investing activities			
Net cash used in investing activities			

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BAYFIRST FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED (UNAUDITED) CONTINUED
(Dollars in thousands)

	Three Months Ended March 31,	Three Months Ended March 31,	
	2024	2024	2023
Cash flows from financing activities:			
Net change in deposits			
Net change in deposits			
Net change in deposits			
Net increase in short-term borrowings			
Payments on notes payable			
Payments on notes payable			
Payments on notes payable			

	Nine Months Ended September 30,	
	2023	2022
Cash flows from financing activities:		
Net change in deposits	222,726	64,051

Net increase (decrease) in short-term borrowings		(25,000)	28,000
Proceeds from issuance of common stock for benefit plans, net			
Payments on notes payable		(341)	(341)
Net repayments of PPP Liquidity Facility borrowings		—	(69,654)
Proceeds from issuance of preferred stock, net		1,835	—
Repayment of subordinated debt		(50)	—
Proceeds from issuance of common stock for benefit plans, net	Proceeds from issuance of common stock for benefit plans, net	296	424
Common share buyback - redeemed stock		(13)	(49)
Proceeds from issuance of common stock for benefit plans, net			
Unearned ESOP shares	Unearned ESOP shares	(329)	—
Unearned ESOP shares			
Unearned ESOP shares			
Dividends paid on common stock			
Dividends paid on common stock			
Dividends paid on common stock	Dividends paid on common stock	(985)	(966)
Dividends paid on preferred stock	Dividends paid on preferred stock	(624)	(624)
Net cash provided by financing activities	Net cash provided by financing activities	197,515	20,841
Net change in cash and cash equivalents	**Net change in cash and cash equivalents**	46,507	(73,231)
Cash and cash equivalents, beginning of period	**Cash and cash equivalents, beginning of period**	66,046	109,727
Cash and cash equivalents, end of period	**Cash and cash equivalents, end of period**	$112,553	$36,496
Supplemental cash flow information	**Supplemental cash flow information**		

Interest paid	Interest paid	$ 22,181	$ 4,710
Interest paid			
Interest paid			
Income taxes paid	Income taxes paid	2	169
Supplemental noncash disclosures	**Supplemental noncash disclosures**		
Impact to retained earnings from adoption of ASC 326, net of tax	Impact to retained earnings from adoption of ASC 326, net of tax	(2,508)	—
Net change in unrealized holding losses on investment securities available for sale, net of tax effect		103	(3,360)
Transfer of available for sale debt securities to held to maturity securities at fair value		—	1,500
Transfer of government guaranteed loans held for investment to loans held for sale		336,914	255,171
Transfer of loans held for investment to OREO		—	53
Transfer of premises and equipment to OREO		(1,903)	—
Impact to retained earnings from adoption of ASC 326, net of tax			
Impact to retained earnings from adoption of ASC 326, net of tax			
Net change in unrealized holding gains (losses) on investment securities available for sale, net of tax effect			
Transfer of government guaranteed loans HFI to loans HFS			
Transfer of government guaranteed loans HFI to loans HFS			
Transfer of government guaranteed loans HFI to loans HFS			

Transfer of loans HFI to OREO			
Recognition of right of use asset and operating lease liability			
Recognition of right of use asset and operating lease liability			
Recognition of right of use asset and operating lease liability	Recognition of right of use asset and operating lease liability	—	627

See accompanying notes.

BAYFIRST FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands, except per share data)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include BayFirst Financial Corp. and its wholly owned subsidiary, BayFirst National Bank, together referred to as "the Company".

These unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles followed within the financial services industry for interim financial information and Article 8 of Regulation S-X. Accordingly, they do not include all of the information or notes required for complete financial statements. The consolidated balance sheet as of December 31, 2022 December 31, 2023 has been derived from the audited consolidated financial statements of BayFirst Financial Corp. for that period.

The Company currently operates one business segment. In the third quarter of 2022, the Company discontinued the Bank's nationwide residential mortgage loan segment. The operations of this segment are reported as discontinued operations.

In the opinion of management, all adjustments, consisting of normal and recurring items, considered necessary for a fair presentation of the consolidated financial statements for the interim periods have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts reported in prior periods have been reclassified to conform to current year presentation. These reclassifications did not have a material effect on previously reported net income, shareholders' equity, or cash flows.

Operating results for the nine month period three months ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 December 31, 2024. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2022 December 31, 2023.

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 2022 December 31, 2023 in the Company's Annual Report filed on Form 10-K as well as changes to accounting policies which are described below. 10-K. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The most significant estimates relate to the ACL, government guaranteed loan servicing rights, and fair value of government guaranteed loans. loans HFI.

Emerging Growth Company Status: The Company is expected to remain an "emerging growth company," as defined in the JOBS Act, through December 31, 2026. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of an extended transition period when complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to take advantage of this extended transition period, which means these financial statements, as well as financial statements they file in the future for as long as the Company remains an emerging growth company, will be subject to all new or revised accounting standards generally applicable to private companies.

Contingencies: Due to the nature of their activities, the Company and its subsidiary are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of September 30, 2023 March 31, 2024. Although the ultimate outcome of all claims and lawsuits outstanding as of September 30, 2023 March 31, 2024 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on the Company's results of operations or financial condition.

Adoption of New Accounting Standards:

(Dollars in thousands, except per share data) (Unaudited)

On January 1, 2023, the Company adopted ASU No. 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13") along with its amendments, which replaces the incurred loss impairment methodology in past standards with the CECL methodology and requires consideration of a broader range of information to determine credit loss estimates. The measurement of expected losses under the CECL methodology is applicable to financial assets measured at amortized cost, as well as unfunded commitments that are considered off-balance sheet credit exposures at the reporting date. The measurement is based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt

securities and purchased financial assets with credit deterioration. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning January 1, 2023 and after are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a decrease to retained earnings of $2,508, net of tax, comprised of a $3,107 pretax increase in the ACL for loans and $18 for HTM securities combined with a $213 pretax increase in reserve on unfunded commitments, as of January 1, 2023 for the cumulative effect of adopting ASC 326.

The pre-tax impact of the January 1, 2023 adoption is summarized in the table below:

Allowance for credit losses	January 1, 2023 As Reported Under ASC 326	December 31, 2022 Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets			
Investment securities HTM - corporate bonds	$ 18	$ —	$ 18
Loans HFI, at amortized cost			
Real estate - residential	2,210	731	1,479
Real estate - commercial	1,569	956	613
Real estate - construction and land	309	28	281
Commercial and industrial	7,298	6,182	1,116
Consumer and other	767	1,090	(323)
Unallocated	—	59	(59)
Loans HFI, at amortized cost total	12,153	9,046	3,107
Liabilities			
Allowance for credit loss for unfunded commitments	724	511	213
Total	$ 12,877	$ 9,557	$ 3,320

ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326)" ("ASU 2022-02") eliminates the guidance on troubled debt restructurings and requires entities to evaluate all loan modifications to determine if they result in a new loan or a continuation of the existing loan. ASU 2022-02 also requires that entities disclose current-period gross charge-offs by year of origination for loans. The amendments in this Update became effective for the Company on January 1, 2023 for all interim and annual periods. The adoption of the provisions in this Update are applied prospectively and have resulted in additional disclosures concerning modifications of loans to borrowers experiencing financial difficulty, as well as disaggregated disclosure of charge-offs on loans. Please also see Note 5 – Allowance for Credit Losses for added disclosure concerning modifications of loans to borrowers experiencing financial difficulty, as well as current period gross charge-offs on financing receivables by year of origination and class of financing receivable.

Allowance for Credit Losses - Investment Securities:

The ACL on held-to-maturity securities is a contra-asset valuation determined in accordance with ASC 326, which is deducted from the securities' amortized cost basis at the balance sheet date as a result of management's assessment of the net amount expected to be collected. The allowance is measured on a pooled basis for securities with similar risk characteristics using historical credit loss information, adjusted for current conditions and reasonable and supportable forecasts. Securities that are determined to be uncollectible are written off against the allowance.

For available-for-sale securities in an unrealized loss position ("impaired security"), we assess whether 1) we intend to sell the security, or, 2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. Under either of these scenarios above, the security's amortized cost is written down to fair value through a charge to previously recognized allowances or earnings, as applicable. For impaired securities that do not meet these conditions, we assess whether the decline in fair value was due to credit loss or other factors. This assessment considers, among other things: 1) the extent to which the fair value is less than amortized cost, 2) the financial condition and near-term prospects of the issuer, 3) any changes to the rating of the security by a rating agency, and 4) our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss component. Any impairment due to non-credit-related factors that has not been recorded through an ACL is recognized in other comprehensive income (loss). The discount rate used in determining the present value of the expected cash flows is based on the effective interest rate implicit in the security at the date of purchase.

The ACL on investment securities HTM is a contra-asset valuation that is deducted from the carrying amount of investment securities HTM to present the net amount expected to be collected. Investment securities HTM are charged off against the ACL when deemed uncollectible. Adjustments to the ACL are reported in our Consolidated Statements of Income in provision for credit losses. We measure expected credit losses on securities HTM on a collective basis by major security type with each type sharing similar risk characteristics, and consider historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to U.S. Government-sponsored agency and mortgage-backed securities, all these investment securities are issued by a U.S.government-sponsored entity and have an implicit or explicit government guarantee; therefore, no ACL has been recorded for these investment securities. With regard to corporate bonds HTM, we consider the issuer's bond rating or the average expected default frequency of the similar investment securities based on company size and industry for those investment securities that are not rated. Historical loss rates associated with investment securities having similar grades as those in our portfolio have been insignificant.

Accrued interest receivable is excluded from the amortized costs and fair values of both held-to-maturity and available-for-sale securities and included in accrued interest receivable on the Consolidated Balance Sheets. Investment securities are placed on non-accrual status when principal or interest is contractually past due more than ninety days, or management does not expect full payment of principal and interest. We do not record an ACL for accrued interest receivable on investment securities, as the amounts are written-off when the investment is placed on non-accrual status. There were no non-accrual investment securities in any of the periods presented in the consolidated financial statements.

Allowance for Credit Losses - Loans Held for Investment and Unfunded Commitments:

The ACL is a valuation account that is deducted from the amortized cost basis of loans to present a net amount expected to be collected. The ACL excludes loans held for sale and loans accounted for under the fair value option. Loans are charged-off against the ACL when management believes the uncollectibility of a loan balance is confirmed.

The Company's ACL on loans is estimated using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Company's historical credit loss experience provides the basis for the estimation of expected credit losses. Management adjusts historical loss information for differences in current risk characteristics such as portfolio risk grading, delinquency levels, or portfolio mix as well as for changes in environmental conditions such as changes in unemployment rates. The ACL on unfunded loan commitments is based on estimates of probability that these commitments will be drawn upon according to historical utilization experience, expected loss severity and loss rates as determined for pooled funded loans. The ACL on unfunded commitments is a liability account included in other liabilities. Management estimates these allowances quarterly.

The ACL is measured on a pooled basis when similar risk characteristics are present in the portfolio. The Company has identified portfolio segments based on loan pools with similar credit risk characteristics, which generally correspond to federal regulatory reporting codes, with separate consideration for the government guaranteed loans. The ACL model utilizes a PD/LGD methodology to measure the expected credit losses on government guaranteed loans and a WARM methodology for the remaining loans. The PD/LGD method estimates losses by utilizing estimated PD, LGD, and individual loan level exposure at default. The WARM model contemplates expected losses at a pool-level, utilizing historical loss information. Portions of government guaranteed loans have a government guarantee for credit losses, therefore, no ACL has been recorded for those loan balances. In order to quantify the credit risk impact of other trends and changes within the loan portfolio, the Company utilizes qualitative adjustments to the modeled estimated loss approaches. These qualitative adjustments include: changes in lending policies, procedures, and strategies; changes in nature and volume of portfolio; staff experience; changes in volume and trends in classified loans, delinquencies, and nonaccrual; concentration risk; trends in underlying collateral value; external factors such as competition, legal, regulatory; changes in quality of the loan review system; and economic conditions. Additionally, the Company uses reasonable and supportable forecasts utilizing data from the Federal Open Market Committee's median forecasts of change in national GDP and of national unemployment.

BAYFIRST FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data) (Unaudited)

Loans that do not share risk characteristics are evaluated on an individual basis and are excluded from the pooled evaluation. This generally occurs when, based on current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the originally contracted, or reasonably modified, terms of the loan agreement.

Individually evaluated loans are evaluated for impairment and a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the rate implicit in the original loan agreement or at the fair value of collateral if repayment is expected solely from the collateral.

Expected credit losses are estimated over the contractual term of the loan, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless management has a reasonable expectation at the reporting date that a modification will be executed with an individual borrower or the extension or renewal options are included in the contract at the reporting date by the Company.

Past due status of loans is determined based on contractual terms. Commercial and residential loans are placed in nonaccrual status and interest accrual is discontinued if they become 90 days delinquent or there is evidence that the borrower's ability to make the required payments is impaired. Other consumer and personal loans continue to accrue interest and are typically charged off no later than 120 days past due.

When interest accrual is discontinued, all unpaid accrued interest is reversed unless all or some interest accrued to date is guaranteed by the USDA, in which case the guaranteed amount is not reversed. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

(Dollars in thousands, except per share data) (Unaudited)
(Dollars in thousands, except per share data)

The determination of the appropriate level of the ACL inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Although management believes that the processes in place for assessing the appropriate level of the ACL are robust, such policies and procedures have limitations, including judgment errors in management's risk analysis, and may not prevent unexpected losses in the future. Moreover, the CECL methodology may create more volatility in the level of our ACL from quarter to quarter as changes in the level of ACL will be dependent upon, among other things, macroeconomic forecasts and conditions, loan portfolio volumes and credit quality. These factors could have a material adverse effect on the Company's business, financial condition and results of operations.

Preferred Stock Offering:

On September 30, 2023, the Company issued 1,835 shares of 11.0% Series C Cumulative Convertible Preferred Stock through a private offering. These shares have no par value and a liquidation preference of $1 per share plus an amount equal to all accumulated dividends thereon (whether or not declared but without interest) to the date payment of such distribution is made in full. Total gross proceeds from the preferred stock offering were $1,835 through September 30, 2023 which will be used for operating expenses or to contribute capital to BayFirst National Bank to support its growth and operations. An additional 1,995 shares and 1,760 shares were issued on October 18, 2023 and October 31, 2023, respectively. Total gross proceeds from the preferred stock offering currently totals $5,590.

Series C Preferred Shareholders are entitled to receive quarterly cash dividends at 11% per annum (unless the Company has not redeemed the shares by the tenth anniversary of their issuance, in which event the rate is subject to be increased to 12%). The holders of shares of Series C Preferred Stock have the right to convert such shares into shares of common stock at a conversion value equal to the quotient of: (i) the $1 liquidation preference; divided by (ii) the tangible book value per share of common stock, calculated on the basis of the Company's financial statements, as of the last day of the calendar quarter occurring prior to the date on which a holder exercises the conversion right; provided, however, that tangible book value shall be adjusted to reflect a subsequent quarter end only on the last day of the month succeeding such quarter end.

On the tenth anniversary of the issuance of any Series C Preferred Stock, the Company must redeem such shares; provided, however, that the Company will not be so obligated if it does not have adequate funds to pay the redemption price or is prohibited by law or otherwise from redeeming the shares. The Company may redeem any portion of the outstanding shares of Series C Preferred Stock at any time after the third anniversary of their issuance. The redemption price in either instance will be $1 per share plus an amount equal to all accumulated dividends thereon (whether or not earned or declared but without interest) to the date of payment of such distribution.

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NOTE 2 – DISCONTINUED OPERATIONS

During the third quarter of 2022, the Company discontinued the Bank's nationwide residential mortgage loan production operations. The decision was based on a number of strategic priorities and other factors, including the precipitous decline in mortgage volumes and the uncertain outlook for mortgage lending over future periods. As a result of these actions, the Company classified the operations of the residential mortgage lending division as discontinued under ASC 205-20. The Consolidated Balance Sheets, Consolidated Statements of Income, and Consolidated Statements of Cash Flows present discontinued operations for the current period periods and retrospectively for prior periods.

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The following is a summary of the assets and liabilities of the discontinued operations of the residential mortgage lending division at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	March 31, 2024	March 31, 2024	December 31, 2023
Assets			

		September 30, 2023	December 31, 2022
Assets			
Loans held for sale, at fair value		$ —	$ 449
Loan servicing rights		—	201
Right-of-use operating lease asset	Right-of-use operating lease asset	398	559
Accrued interest receivable		—	2

Right-of-use operating lease asset			

Right-of-use operating lease asset			
Total assets			
Total assets			
Total assets	**Total assets**	$ 398	$ 1,211
Liabilities	**Liabilities**		
Operating lease liability	Operating lease liability	$ 715	$ 1,189
Operating lease liability			
Operating lease liability			
Other liabilities		—	469
Total liabilities	**Total liabilities**	$ 715	$ 1,658
Total liabilities			
Total liabilities			

The following presents operating results of the discontinued operations of the residential mortgage lending division for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023:

	Three Months Ended March 31, **Three Months Ended March 31,** **Three Months Ended March 31,**		
	2024	**2024**	**2023**
Interest income			

		Three Months Ended September 30,		**Nine Months Ended September 30,**	
		2023	**2022**	**2023**	**2022**
Interest income		$ —	$ 862	$ 1	$ 2,466
Noninterest expense					
Noninterest income		—	7,116	(2)	30,540
Total net revenue		—	7,978	(1)	33,006
Noninterest expense					
Noninterest expense	Noninterest expense	62	13,951	274	39,712
Loss from discontinued operations before income taxes	Loss from discontinued operations before income taxes	(62)	(5,973)	(275)	(6,706)
Income tax benefit	Income tax benefit	(15)	(1,488)	(68)	(1,670)

(Dollars in thousands, except per share data)

Net loss from discontinued operations	Net loss from discontinued operations	$(47)	$(4,485)	$(207)	$(5,036)

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NOTE 3 – INVESTMENT SECURITIES

The amortized costs, gross unrealized gains and losses, and estimated fair values of investment securities available for sale and investment securities held to maturity at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 as well as the ACL for investment securities held to maturity at September 30, 2023 March 31, 2024 and December 31, 2023 are summarized as follows:

September 30, 2023		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2024	**March 31, 2024**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale:	Investment securities available for sale:				
Asset-backed securities					
Asset-backed securities					
Asset-backed securities	Asset-backed securities	$ 8,597	$ 1	$ (71)	$ 8,527
Mortgage-backed securities:	Mortgage-backed securities:				
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	3,909	—	(807)	3,102
U.S. Government-sponsored enterprises					
U.S. Government-sponsored enterprises					
Collateralized mortgage obligations:	Collateralized mortgage obligations:				
U.S. Government-sponsored enterprises					
U.S. Government-sponsored enterprises					
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	20,730	—	(4,011)	16,719
Corporate bonds	Corporate bonds	11,333	11	(9)	11,335
Total investment securities available for sale	Total investment securities available for sale	$ 44,569	$ 12	$ (4,898)	$39,683

September 30, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL
Investment securities held to maturity:					
Mortgage-backed securities:					
U.S. Government-sponsored enterprises	$ 1	$ —	$ —	$ 1	$ —

(Dollars in thousands, except per share data)

Corporate bonds	2,500	—	(219)	2,281	19
Total investment securities held to maturity	$ 2,501	$ —	$ (219)	$ 2,282	$ 19

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March 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL
Investment securities held to maturity:					
Mortgage-backed securities:					
U.S. Government-sponsored enterprises	$ 1	$ —	$ —	$ 1	$ —
Corporate bonds	2,500	—	(149)	2,351	14
Total investment securities held to maturity	$ 2,501	$ —	$ (149)	$ 2,352	$ 14

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December 31, 2022		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023					

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

Investment securities available for sale:	Investment securities available for sale:				
Asset-backed securities					
Asset-backed securities					
Asset-backed securities	Asset-backed securities	$ 9,873	$ —	$ (268)	$ 9,605
Mortgage-backed securities:	Mortgage-backed securities:				
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	4,133	—	(693)	3,440
U.S. Government-sponsored enterprises					
U.S. Government-sponsored enterprises					
Collateralized mortgage obligations:	Collateralized mortgage obligations:				
U.S. Government-sponsored enterprises					
U.S. Government-sponsored enterprises					
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	22,031	—	(3,811)	18,220
Corporate bonds	Corporate bonds	11,337	—	(253)	11,084
Total investment securities available for sale	Total investment securities available for sale	$ 47,374	$ —	$ (5,025)	$42,349

December 31, 2022		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities held to maturity:	Investment securities held to maturity:				
Mortgage-backed securities:	Mortgage-backed securities:				
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	$ 2	$ —	$ —	$ 2
Corporate bonds	Corporate bonds	5,000	—	(247)	4,753
Total investment securities held to maturity	Total investment securities held to maturity	$ 5,002	$ —	$ (247)	$4,755

December 31, 2023	December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL
Mortgage-backed securities:						
Mortgage-backed securities:						
U.S. Government-sponsored enterprises						
U.S. Government-sponsored enterprises						
Corporate bonds						
Corporate bonds						

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The amortized cost and fair value of investment securities as of September 30, 2023 March 31, 2024 are shown in the table below by contractual maturity. Actual timing may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

		Available for Sale		Held to Maturity	
		Amortized Cost	Fair Value	Amortized Cost	Fair Value
One to five years	One to five years	$ 11,333	$11,335	$ 1,500	$1,384
Five to ten years	Five to ten years	—	—	1,000	897
Beyond ten years	Beyond ten years	33,236	28,348	1	1
Total	Total	$ 44,569	$39,683	$ 2,501	$2,282

	Available for Sale						Held to Maturity					
	Amortized Cost				Fair Value		Amortized Cost				Fair Value	
One to five years												
One to five years	$11,330	$	$	11,393		$	1,500	$	$	1,444		
Five to ten years	4,458	4,458			4,458			1,000		907		907
Beyond ten years	31,028	26,663			26,663			1		1		1
Total	$46,816	$	$		42,514		$2,501	$	$	2,352		

No ACL for investment securities AFS was needed at September 30, 2023 March 31, 2024 or December 31, 2023. Accrued interest receivable on securities Declines in the fair value of the AFS is excluded from investment portfolio are believed by management to be temporary in nature. When evaluating an investment for credit loss, management considers, among other things, the estimate length of time and the extent to which the fair value has been in a loss position; the financial condition of the issuer through the review of credit ratings and, if necessary, corporate financial statements; adverse conditions specifically related to the security such as past due principal or interest; underlying assets that collateralize the debt security; other economic conditions and demographics; and the intent and ability of the Company to hold the investment until the loss position is recovered.

(Dollars in thousands, except per share data)

Any unrealized losses were largely due to increases in market interest rates over the yields available at the time of purchase. The fair value is expected to recover as the bonds approach their maturity date or market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. At March 31, 2024, the Company did not intend to sell and is included believed it was not likely to be required to sell the available for sale securities that were in accrued interest receivable in the Consolidated Balance Sheets. a loss position prior to full recovery.

As of September 30, 2023 March 31, 2024, there were no past due principal and interest payments associated with the HTM securities. The Company monitors the credit quality of debt securities held to maturity quarterly through the use of credit ratings. However, the corporate bonds that are held to maturity have no credit rating and the corporate bonds in an unrealized loss position at March 31, 2024 are not material to the financial statements. There was an ACL of $19 $14 and $17on corporate bonds HTM at March 31, 2024 and December 31, 2023, respectively, which was calculated based on applying the long-term historical credit loss rate for similarly rated securities.

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The following table presents the activity in the ACL for investment securities HTM by major security type for the three and nine months ended September 30, 2023 March 31, 2024 and March 31, 2023:

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		For the Three Months Ended	For the Nine Months Ended		
		For the Three Months Ended			
		For the Three Months Ended			
		For the Three Months Ended			
Corporate Bonds					
Corporate Bonds					
Corporate Bonds	**Corporate Bonds**	September 30, 2023		March 31, 2024	March 31, 2023
Balance at beginning of period	Balance at beginning of period	$ 19	$ —		
Impact of adopting ASC 326	Impact of adopting ASC 326	—	18		
Impact of adopting ASC 326					
Impact of adopting ASC 326					
Provision for credit losses					
Provision for credit losses					
Provision for credit losses	Provision for credit losses	—	1		

Investment securities charge-offs/recoveries	Investment securities charge-offs/recoveries	—	—
Investment securities charge-offs/recoveries			
Investment securities charge-offs/recoveries			
Investment securities recoveries			
Investment securities recoveries			
Investment securities recoveries	Investment securities recoveries	—	—
Balance at end of period	Balance at end of period	$ 19	$ 19
Balance at end of period			
Balance at end of period			

The following table summarizes investment securities with unrealized losses at September 30, 2023 March 31, 2024 aggregated by security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total		
September 30, 2023	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities
Investment securities available for sale:							
Asset-backed securities	$ —	$ —	$ 6,500	$ (71)	$ 6,500	$ (71)	2
Mortgage-backed securities:							
U.S. Government-sponsored enterprises	—	—	3,102	(807)	3,102	(807)	2
Collateralized mortgage obligations:							
U.S. Government-sponsored enterprises	—	—	16,719	(4,011)	16,719	(4,011)	7

	Less than 12 Months		
March 31, 2024			
March 31, 2024			
March 31, 2024	Fair Value	Unrealized Losses	Fair Value
Investment securities available for sale:			
Asset-backed securities			
Asset-backed securities			
Asset-backed securities	$ 1,817	$ $(9)	$ $ 5,391 $ $ (46)
U.S. Government-sponsored enterprises			
U.S. Government-sponsored enterprises	—	—	3,038

Corporate bonds	5,007	(9)	—	—	5,007	(9)	2						
U.S. Government-sponsored enterprises													
U.S. Government-sponsored enterprises									—		—		16,417
Total investment securities available for sale													
Total investment securities available for sale													
Total investment securities available for sale													
Total investment securities available for sale	$5,007	$ (9)	$26,321	$ (4,889)	$31,328	$ (4,898)	13	$ 1,817	$	$(9)	$	$24,846	$ $(4,356)
Investment securities held to maturity:													
Investment securities held to maturity:													
Investment securities held to maturity:													
Investment securities held to maturity:													
Corporate bonds													
Corporate bonds	$ —	$ —	$ 1,781	$ (219)	$ 1,781	$ (219)	2						
Corporate bonds													
Corporate bonds									$—		$ —		$1,852
Total investment securities held to maturity													
Total investment securities held to maturity	$ —	$ —	$ 1,781	$ (219)	$ 1,781	$ (219)	2	**Total investment securities held to maturity**	$—	$	$ —	$	$1,852 $

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(Dollars in thousands, except per share data)

The following table summarizes investment securities with unrealized losses at December 31, 2022 2023 aggregated by security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total		
December 31, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities

	Less than 12 Months		
December 31, 2023			
December 31, 2023			
December 31, 2023	Fair Value	Unrealized Losses	Fa
Investment securities available for sale:			
Investment securities available for sale:			
Asset-backed securities			
Asset-backed securities			

Asset-backed securities	Asset-backed securities	$ 2,156	$ (103)	$ 7,449	$ (165)	$ 9,605	$ (268)	3		$ —	$	$—		$		$5,967
Mortgage-backed securities:	Mortgage-backed securities:															
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	—	—	3,440	(693)	3,440	(693)	2								
U.S. Government-sponsored enterprises																
U.S. Government-sponsored enterprises											—		—			
Collateralized mortgage obligations:	Collateralized mortgage obligations:															
U.S. Government-sponsored enterprises																
U.S. Government-sponsored enterprises																
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	4,188	(383)	14,103	(3,428)	18,291	(3,811)	7		—	—		—	17,098		1
Corporate bonds	Corporate bonds	11,085	(253)	—	—	11,085	(253)	5	Corporate bonds	11,308	(24)		(24)	—		
Total investment securities available for sale	**Total investment securities available for sale**	$17,429	$ (739)	$24,992	$ (4,286)	$42,421	$ (5,025)	17	**Total investment securities available for sale**	$11,308	$		$ (24)	$		$2
Investment securities held to maturity:																
Investment securities held to maturity:																
Investment securities held to maturity:	**Investment securities held to maturity:**															
Corporate bonds	Corporate bonds	$ 4,982	$ (247)	$ —	$ —	$ 4,982	$ (247)	4								
Corporate bonds																
Corporate bonds										$ —			$ —			$
Total investment securities held to maturity	**Total investment securities held to maturity**	$ 4,982	$ (247)	$ —	$ —	$ 4,982	$ (247)	4	**Total investment securities held to maturity**	$ —	$		$ —	$		$

No investment securities were pledged as of September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023, and there were no sales of investment securities during the three and nine months ended September 30, 2023 or during March 31, 2024 and the year ended December 31, 2022 December 31, 2023.

NOTE 4 – LOANS

Loans held for investment, HFI, at amortized cost, at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows:

	September 30, 2023	December 31, 2022
March 31, 2024	March 31, 2024	December 31, 2023

(Dollars in thousands, except per share data)

Real estate:	Real estate:		
Residential			
Residential			
Residential	Residential	$ 248,973	$ 202,329
Commercial	Commercial	280,620	231,281
Construction and land	Construction and land	25,339	9,320
Commercial and industrial	Commercial and industrial	174,238	194,643
Commercial and industrial - PPP	Commercial and industrial - PPP	15,364	19,293
Consumer and other	Consumer and other	39,024	37,288
Loans held for investment, at amortized cost, gross		783,558	694,154
Loans HFI, at amortized cost, gross			
Deferred loan costs, net	Deferred loan costs, net	12,928	10,740
Discount on government guaranteed loans sold(1)	Discount on government guaranteed loans sold(1)	(6,623)	(5,621)
Premium on loans purchased, net	Premium on loans purchased, net	4,406	2,301
Allowance for credit losses	Allowance for credit losses	(13,365)	(9,046)
Loans held for investment, at amortized cost		$ 780,904	$ 692,528
Loans HFI, at amortized cost			

(1) The Company allocates the retained portion of loans sold based on relative fair value of the retained portion and the sold portion, which results in a discount on the retained portion.

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NOTE 5 - ALLOWANCE FOR CREDIT LOSSES

On January 1, 2023, the Company adopted ASU 2016-13, or CECL, using the modified retrospective method for all of its loans measured at amortized cost. With the adoption of CECL, the Company elected to exclude accrued interest receivable from the amortized cost basis of loans.

The following schedules present the activity in the ACL by loan segment for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023:

Three Months Ended	Three Months Ended	Real Estate - Residential	Real Estate - Commercial	Real Estate - Construction and Land	Commercial and Industrial	Consumer and Other	Unallocated	Total
September 30, 2023								
Three Months Ended								

Three Months Ended	Real Estate - Residential	Real Estate - Commercial	Real Estate - Construction and Land	Commercial and Industrial	Consumer and Other	Unallocated	Total
March 31, 2024							
Beginning Balance							

Beginning Balance								
Beginning Balance	Beginning Balance	$ 2,542	$ 1,889	$ 359	$ 7,011	$ 797	$ —	$ 12,598
Charge-offs								
Charge-offs								
Charge-offs	Charge-offs	—	(108)	—	(1,542)	(874)	—	(2,524)
Recoveries	Recoveries	8	75	—	114	93	—	290
Provision	Provision	131	(298)	121	1,861	1,186	—	3,001
Ending Balance	Ending Balance	$ 2,681	$ 1,558	$ 480	$ 7,444	$ 1,202	$ —	$ 13,365
September 30, 2022								
March 31, 2023								
Beginning Balance	Beginning Balance	$ 589	$ 1,133	$ 38	$ 6,764	$ 1,038	$ 2	$ 9,564
Beginning Balance								
Beginning Balance								
Impact of adopting ASC 326								
Charge-offs	Charge-offs	—	36	—	(697)	(68)	—	(729)
Recoveries	Recoveries	—	13	—	105	36	—	154
Provision	Provision	134	(66)	(4)	670	13	3	750
Ending Balance	Ending Balance	$ 723	$ 1,116	$ 34	$ 6,842	$ 1,019	$ 5	$ 9,739

	Real Estate - Residential	Real Estate - Commercial	Real Estate - Construction and Land	Commercial and Industrial	Consumer and Other	Unallocated	Total
Nine Months Ended							
September 30, 2023							
Beginning Balance	$ 731	$ 956	$ 28	$ 6,182	$ 1,090	$ 59	$ 9,046
Impact of adopting ASC 326	1,479	613	281	1,116	(323)	(59)	3,107
Charge-offs	—	(108)	—	(4,660)	(2,214)	—	(6,982)
Recoveries	8	77	—	303	219	—	607
Provision	463	20	171	4,503	2,430	—	7,587
Ending Balance	$ 2,681	$ 1,558	$ 480	$ 7,444	$ 1,202	$ —	$ 13,365
September 30, 2022							
Beginning Balance	$ 1,437	$ 2,349	$ 241	$ 9,202	$ 154	$ 69	$ 13,452
Charge-offs	—	(17)	—	(2,667)	(109)	—	(2,793)
Recoveries	—	74	—	365	41	—	480
Provision	(714)	(1,290)	(207)	(58)	933	(64)	(1,400)
Ending Balance	$ 723	$ 1,116	$ 34	$ 6,842	$ 1,019	$ 5	$ 9,739

On January 1, 2023 the Company adopted CECL which significantly changed the credit losses estimation model for loans. The ACL represents management's best estimate of future lifetime expected losses on its held for investment HFI loan portfolio. The Company calculates its ACL by estimating expected credit losses on a collective basis for loans that share similar risk characteristics. Loans that do not share similar risk characteristics with other loans are evaluated for credit losses on an individual basis. The Company uses a combination of modeled and non-modeled approaches that incorporates current and future economic conditions to estimate lifetime expected losses on a collective basis.

The Company's ACL model utilizes a PD/LGD methodology to measure the expected credit losses on government guaranteed loans and a WARM methodology for the remaining loans. The PD/LGD method estimates losses by utilizing estimated PD, LGD, and individual loan level exposure at default. The WARM model contemplates expected losses at a pool-level, utilizing historical loss information. Portions of government guaranteed loans have a government guarantee for credit losses, therefore, no ACL has been recorded for those loan balances. In order to quantify the credit risk impact of other trends and changes within the loan portfolio, the Company utilizes qualitative adjustments to the modeled estimated loss approaches. These qualitative adjustments include: changes in lending policies, procedures, and strategies; changes in nature and volume of portfolio; staff experience; changes in volume and trends in classified loans, delinquencies, and nonaccrual; concentration risk; trends in underlying collateral value; external factors such as competition, legal, regulatory; changes in quality of the loan review system; and economic conditions. In addition to this, the Company uses reasonable and supportable forecasts utilizing data from the Federal Open Market Committee's median forecasts of change in national GDP and of national unemployment. The FOMC's forecast for the remainder of the calendar year is used in conjunction with the most recent 4 quarters of historical data from FRED (Federal Reserve Economic Data) to determine changes in certain qualitative factors used in calculating loss rates.

Loans that do not share risk characteristics are evaluated on an individual basis and are excluded from the pooled evaluation. This generally occurs when, based on current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the originally contracted, or reasonably modified, terms of the loan agreement.

Individually evaluated loans are evaluated for impairment and a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the rate implicit in the original loan agreement or at the fair value of collateral adjusted for selling costs as appropriateif repayment is expected solely from the collateral.

The Company uses reasonable and supportable forecasts that are updated quarterly utilizing data from the FOMC's median forecasts of change in national GDP and of national unemployment. The FOMC's forecast of GDP and unemployment for the next calendar year is used in conjunction with the most recent 4 quarters of historical data from FRED (Federal Reserve Economic Data) to determine changes in certain qualitative factors used in calculating loss rates.

See Note 1 and Note 5 of the Notes to Consolidated Financial Statements for further discussion of the Company's ACL methodology.methodology in the December 31, 2023 Form 10-K.

The Company maintains a separate ACL for its off-balance sheet unfunded loan commitments. The ACL on unfunded loan commitments is based on estimates of probability that these commitments will be drawn upon according to historical utilization experience, expected loss severity and loss rates as determined for pooled funded loans. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the ACL for unfunded commitments recorded in other liabilities was $844 and $511, respectively. $839.

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(Dollars in thousands, except per share data)

The following table presents the activity in the ACL for unfunded commitments for the three and nine months ended September 30, 2023 March 31, 2024 and March 31, 2023:

	For the Three Months Ended	For the Nine Months Ended
	September 30, 2023	
	For the Three Months Ended	
	For the Three Months Ended	
	For the Three Months Ended	
	March 31, 2024	
	March 31, 2024	

(Dollars in thousands, except per share data)

		March 31, 2024	March 31, 2023
Balance at beginning of period	Balance at beginning of period	$ 844	$ 511
Impact of adopting ASC 326	Impact of adopting ASC 326	—	213
Impact of adopting ASC 326			
Impact of adopting ASC 326			
Provision for credit losses			
Provision for credit losses			
Provision for credit losses	Provision for credit losses	—	120
Unfunded commitments charge-offs	Unfunded commitments charge-offs	—	—
Unfunded commitments charge-offs			
Unfunded commitments charge-offs			
Unfunded commitments recoveries			
Unfunded commitments recoveries			
Unfunded commitments recoveries	Unfunded commitments recoveries	—	—
Balance at end of period	Balance at end of period	$ 844	$ 844
Balance at end of period			
Balance at end of period			

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The following tables present the recorded investment in principal balance of nonaccrual loans and loans past due over 89 days still on accrual by loan segment at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. In the following tables, the recorded investment principal balance does not include the government guaranteed balance. balance or loans measured at fair value.

September 30, 2023		Nonaccrual with no ACL	Nonaccrual with ACL	Loans Past Due Over 89 Days Still Accruing
March 31, 2024	March 31, 2024	Nonaccrual with no ACL(1)	Nonaccrual with ACL(1)	Loans Past Due Over 89 Days Still Accruing(1)
Real estate - residential	Real estate - residential	$ —	$ 3,588	$ —
Real estate - commercial	Real estate - commercial	—	791	—

Real estate - commercial				
Real estate - commercial				
Commercial and industrial				
Commercial and industrial				
Commercial and industrial	Commercial and industrial	—	3,703	317
Consumer and other	Consumer and other	—	26	351
Consumer and other				
Consumer and other				
Total	Total	$ —	$ 8,108	$ 668
Total				
Total				

December 31, 2022	Nonaccrual	Loans Past Due Over 89 Days Still Accruing

December 31, 2023	December 31, 2023	Nonaccrual with no ACL(1)	Nonaccrual with ACL(1)	Loans Past Due Over 89 Days Still Accruing(1)
Real estate - residential				

Real estate - commercial	Real estate - commercial	$ 1,563	$ —
Commercial and industrial	Commercial and industrial	1,854	—
Consumer and other	Consumer and other	—	254
Total	Total	$ 3,417	$ 254

(1) Excludes loans measured at fair value. See Note 6. Fair Value for additional information.

A financial asset is considered collateral dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. Expected credit losses for collateral dependent loans are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. Significant quarter over quarter changes are reflective of changes in nonaccrual status and not necessarily associated with credit quality indicators like appraised value. As of March 31, 2024 there were no loans individually evaluated. The following table presents the amortized cost basis principal balance of individually analyzed collateral dependent loans by loan portfolio segment as of September 30, 2023 December 31, 2023:

	Type of Collateral	ACL
	Business Assets	
Commercial and industrial	$ 1,500	$ 206

December 31, 2023	Type of Collateral	ACL
	Business Assets	
Commercial and industrial	$ 390	$ 255

The following table presents the aging of the recorded investment in past due gross loans HFI at amortized cost at September 30, 2023 by loan segment:

(Dollars in thousands, except per share data)

	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due (1)	Total Loans
Real estate - residential	$ 2,835	$ 3,535	$ 6,370	$ 242,603	$ 248,973
Real estate - commercial	525	786	1,311	279,309	280,620
Real estate - construction and land	—	—	—	25,339	25,339
Commercial and industrial	3,221	3,787	7,008	167,230	174,238
Commercial and industrial - PPP	—	—	—	15,364	15,364
Consumer and other	934	377	1,311	37,713	39,024
Total	$ 7,515	$ 8,485	$ 16,000	$ 767,558	$ 783,558

(1) $3,783 of balances 30-89 days past due and $2,028 of balances greater than 89 days past due are reported as Loans Not Past Due as a result of the government guarantee. Of those loans, $531 of commercial and industrial PPP loans were delinquent as of September 30, 2023.

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The following table presents the aging of the recorded investment in principal balance of past due gross loans HFI at amortized cost at December 31, 2022 March 31, 2024 by loan segment:

		30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due (1)	Total Loans
	30-89 Days Past Due	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due (1)	Total Loans
Real estate - residential	Real estate - residential	$ 719	$ —	$ 719	$201,610	$202,329
Real estate - commercial	Real estate - commercial	586	639	1,225	230,056	231,281
Real estate - construction and land	Real estate - construction and land	—	—	—	9,320	9,320
Commercial and industrial	Commercial and industrial	2,157	1,760	3,917	190,726	194,643
Commercial and industrial - PPP	Commercial and industrial - PPP	—	—	—	19,293	19,293
Consumer and other	Consumer and other	669	254	923	36,365	37,288
Total	Total	$ 4,131	$ 2,653	$ 6,784	$687,370	$694,154

(1) $1,904 of balances 30-89 days past due and $4,288 of balances greater than 89 days past due are reported as Loans Not Past Due as a result of the government guarantee, and $1,302 of past due commercial and industrial PPP loans were primarily due to delinquencies from borrowers with only a PPP loan and no other Bank product. These borrowers were non-responsive to requests for forgiveness applications and payments, and applications were subsequently submitted to the SBA for their 100% guarantee purchase from the Bank.

(1) $4,677 of balances 30-89 days past due and $2,057 of balances greater than 89 days past due are reported as Loans Not Past Due as a result of the government guarantee. Of those loans, $1,986 of commercial and industrial PPP loans were delinquent as of March 31, 2024.

(1) $4,677 of balances 30-89 days past due and $2,057 of balances greater than 89 days past due are reported as Loans Not Past Due as a result of the government guarantee. Of those loans, $1,986 of commercial and industrial PPP loans were delinquent as of March 31, 2024.

The following table presents the aging of the principal balance of past due loans HFI at amortized cost at December 31, 2023 by loan segment:

	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due (1)	Total Loans
Real estate - residential	$ 1,840	$ 5,184	$ 7,024	$ 257,102	$ 264,126
Real estate - commercial	2,870	791	3,661	289,934	293,595
Real estate - construction and land	—	—	—	26,272	26,272
Commercial and industrial	3,970	603	4,573	172,993	177,566
Commercial and industrial - PPP	—	—	—	3,202	3,202
Consumer and other	1,221	282	1,503	45,784	47,287
Total	$ 9,901	$ 6,860	$ 16,761	$ 795,287	$ 812,048

(1) $1,469 of balances 30-89 days past due and $638 of balances greater than 89 days past due are reported as Loans Not Past Due as a result of the government guarantee. Of those loans $261 of commercial and industrial PPP loans were delinquent as of December 31, 2023.

Modifications to Borrowers Experiencing Financial Difficulty

For the three and nine months ended September 30, 2023 March 31, 2024 and the year ended December 31, 2023, there were no loan modifications to borrowers experiencing financial difficulty and no loan modifications that subsequently defaulted during the period.

Troubled Debt Restructurings

At December 31, 2022, the Company had no loans classified as a troubled debt restructuring. See Note 1 for additional discussion on TDRs.

Credit Quality Indicators

Internal risk-rating grades are assigned to loans by lending, credit administration or loan review personnel, based on an analysis of the financial and collateral strength and other credit attributes underlying each loan. Management analyzes the resulting ratings, as well as other statistics and factors such as delinquency, to track the migration performance of the portfolio balances. This analysis is performed at least annually. The Bank uses the following definitions for its risk ratings:

Pass – Loans properly approved, documented, collateralized, and performing which do not reflect an abnormal credit risk.

Special Mention – These credits have potential weaknesses that may, if not checked or corrected, weaken the asset, or inadequately protect the Company's position at some future date. These assets pose elevated risk, but their weakness does not yet justify a "Substandard" classification.

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

(Dollars in thousands, except per share data)

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

The table below sets forth credit exposure principal balance for the commercial loan portfolio disaggregated by loan segment based on internally assigned risk ratings at September 30, 2023 March 31, 2024 and gross write offs for the nine three months then ended September 30, 2023 March 31, 2024:

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
					Revolving Loans Loans Loans		
	Term Loans Amortized Cost Basis by Origination Year						
	Term Loans Amortized Cost Basis by Origination Year						
	Term Loans Amortized Cost Basis by Origination Year						
	2024						
	2024						
	2024	2023	2022	2021	Prior	Cost Basis	to Term	Total
Real estate - commercial Real estate - commercial							
Risk Rating Risk Rating							
Risk Rating							
Risk Rating							
Pass							
Pass							
Pass Pass	$77,037	$81,500	$51,126	$66,435	$ 3,350	$ —	$279,448
Special mention Special mention	—	—	—	381	—	—	381
Substandard Substandard	—	195	31	565	—	—	791
Doubtful Doubtful	—	—	—	—	—	—	—
Total real estate - commercial loans	$77,037	$81,695	$51,157	$67,381	$ 3,350	$ —	$280,620
Total real estate - commercial loans, at amortized cost, gross							
Gross write offs Gross write offs	$ —	$ 101	$ —	$ 7	$ —	$ —	$ 108

Real estate - construction and land	Real estate - construction and land							
Real estate - construction and land								
Real estate - construction and land								
Risk Rating	Risk Rating							
Risk Rating								
Risk Rating								
Pass								
Pass								
Pass	Pass	$ 9,574	$12,005	$ 3,760	$ —	$ —	$ —	$ 25,339
Special mention	Special mention	—	—	—	—	—	—	—
Substandard	Substandard	—	—	—	—	—	—	—
Doubtful	Doubtful	—	—	—	—	—	—	—
	Total real estate - construction and land loans	$ 9,574	$12,005	$ 3,760	$ —	$ —	$ —	$ 25,339
Total real estate - construction and land loans, at amortized cost, gross								
Gross write offs	Gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	Commercial and industrial							
Commercial and industrial								
Commercial and industrial								
Risk Rating	Risk Rating							
Risk Rating								
Risk Rating								
Pass								
Pass								
Pass	Pass	$38,823	$46,618	$14,787	$61,853	$ 8,417	$ —	$170,498
Special mention	Special mention	—	155	—	518	—	—	673
Substandard	Substandard	—	883	26	2,158	—	—	3,067
Doubtful	Doubtful	—	—	—	—	—	—	—
	Total commercial and industrial loans	$38,823	$47,656	$14,813	$64,529	$ 8,417	$ —	$174,238
Total commercial and industrial loans, at amortized cost, gross								
Gross write offs	Gross write offs	$ 60	$ 1,069	$ 204	$ 3,327	$ —	$ —	$ 4,660
Commercial and industrial - PPP								
Risk Rating								
Pass		$ —	$ 9	$ 222	$15,123	$ —	$ —	$ 15,354
Special mention		—	—	—	10	—	—	10
Substandard		—	—	—	—	—	—	—
Doubtful		—	—	—	—	—	—	—

(Dollars in thousands, except per share data)

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	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
Total commercial and industrial - PPP loans	$—	$ 9	$222	$15,133	$ —	$ —	$15,364

	Term Loans Amortized Cost Basis by Origination Year					Revolving Loans Cost Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	Prior			
Commercial and industrial - PPP								
Risk Rating								
Pass								
Special mention								
Substandard								
Doubtful								
Total commercial and industrial - PPP loans, at amortized cost, gross								
Gross write offs	$—	$—	$ —	$ —		$ —	$ —	$ —

The table below sets forth principal balance for the commercial loan portfolio disaggregated by loan segment based on internally assigned risk ratings at December 31, 2023 and gross write offs for the year ended December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year	Revolving Loans Amortized	Revolving Loans Converted

	2023	2022	2021	Prior	Cost Basis	to Term	Total
Real estate - commercial							
Risk Rating							
Pass	$ 94,092	$ 79,712	$ 50,985	$ 64,648	$ 2,439	$ —	$ 291,876
Special mention	—	482	78	—	—	—	560
Substandard	—	195	31	933	—	—	1,159
Doubtful	—	—	—	—	—	—	—
Total real estate - commercial loans, at amortized cost, gross	$ 94,092	$ 80,389	$ 51,094	$ 65,581	$ 2,439	$ —	$ 293,595
Gross write offs	$ —	$ 101	$ —	$ 7	$ —	$ —	$ 108

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	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized	Revolving Loans Converted	
	2023	2022	2021	Prior	Cost Basis	to Term	Total
Real estate - construction and land							
Risk Rating							
Pass	$ 11,366	$ 12,755	$ 2,151	$ —	$ —	$ —	$ 26,272
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Total real estate - construction and land loans, at amortized cost, gross	$ 11,366	$ 12,755	$ 2,151	$ —	$ —	$ —	$ 26,272
Gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial							
Risk Rating							
Pass	$ 51,212	$ 45,325	$ 13,807	$ 54,003	$ 10,750	$ —	$ 175,097
Special mention	—	150	43	671	—	—	864
Substandard	—	1,004	14	587	—	—	1,605
Doubtful	—	—	—	—	—	—	—
Total commercial and industrial loans, at amortized cost, gross	$ 51,212	$ 46,479	$ 13,864	$ 55,261	$ 10,750	$ —	$ 177,566
Gross write offs	$ 325	$ 1,543	$ 259	$ 4,113	$ —	$ —	$ 6,240
Commercial and industrial - PPP							
Risk Rating							
Pass	$ —	$ —	$ 135	$ 3,067	$ —	$ —	$ 3,202
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Total commercial and industrial - PPP loans, at amortized cost, gross	$ —	$ —	$ 135	$ 3,067	$ —	$ —	$ 3,202
Gross write offs	$ —	$ —	$ —	$ 223	$ —	$ —	$ 223

BAYFIRST FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands, except per share data)

The Company considers the performance of the loan portfolio to determine its impact on the ACL. For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan by payment activity. The following table presents the amortized costs principal balance at September 30, 2023 March 31, 2024 in residential and consumer loans based on payment activity as well as gross write offs for the nine three months then ended September 30, 2023 March 31, 2024.

	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
					Revolving Loans Loans Loans		
	Term Loans Amortized Cost Basis by Origination Year						
	Term Loans Amortized Cost Basis by Origination Year						
	Term Loans Amortized Cost Basis by Origination Year						
	2024						
	2024						
	2024	2023	2022	2021	Prior	Cost Basis	to Term	Total
Real estate - residential Real estate - residential							
Payment Performance Payment Performance							
Payment Performance							
Payment Performance							
Performing							
Performing							
Performing Performing	$25,394	$86,157	$25,040	$20,371	$88,423	$ —	$245,385
Nonperforming Nonperforming	—	600	287	2,381	320	—	3,588
Total real estate - residential loans	$25,394	$86,757	$25,327	$22,752	$88,743	$ —	$248,973
Total real estate - residential loans, at amortized cost, gross							
Gross write offs Gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer and other Consumer and other							
Consumer and other							
Consumer and other							
Payment Performance							
Payment Performance							
Payment Performance Payment Performance							
Performing Performing	$13,786	$22,551	$ 1,268	$ 217	$ 825	$ —	$ 38,647
Performing							
Performing							
Nonperforming Nonperforming	—	351	26	—	—	—	377

(Dollars in thousands, except per share data)

Total consumer and other loans	$13,786	$22,902	$ 1,294	$ 217	$ 825	$ —	$ 39,024
Total consumer and other loans, at amortized cost, gross							
Gross write offs Gross write offs	$ 27	$ 2,174	$ 8	$ 5	$ —	$ —	$ 2,214

The following table below sets forth credit exposure presents the principal balance at December 31, 2023 in residential and consumer loans based on payment activity as well as gross write offs for the loan portfolio disaggregated by loan segment based on internally assigned risk ratings at December 31, 2022: year ended December 31, 2023.

	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real estate - residential	$ 202,275	$ —	$ 54	$ —	$ 202,329
Real estate - commercial	227,367	2,351	1,563	—	231,281
Real estate - construction and land	9,320	—	—	—	9,320
Commercial and industrial	192,226	100	2,317	—	194,643
Commercial and industrial - PPP	19,293	—	—	—	19,293
Consumer and other	37,288	—	—	—	37,288
Loans held for investment, at amortized cost	$ 687,769	$ 2,451	$ 3,934	$ —	$ 694,154

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized	Revolving Loans Converted	
	2023	2022	2021	Prior	Cost Basis	to Term	Total
Real estate - residential							
Payment Performance							
Performing	$ 31,377	$ 83,951	$ 24,524	$ 19,709	$ 99,328	$ —	$ 258,889
Nonperforming	—	1,197	286	2,951	803	—	5,237
Total real estate - residential loans, at amortized cost, gross	$ 31,377	$ 85,148	$ 24,810	$ 22,660	$ 100,131	$ —	$ 264,126
Gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer and other							
Payment Performance							
Performing	$ 25,491	$ 19,390	$ 930	$ 204	$ 990	$ —	$ 47,005
Nonperforming	—	258	24	—	—	—	282
Total consumer and other loans, at amortized cost, gross	$ 25,491	$ 19,648	$ 954	$ 204	$ 990	$ —	$ 47,287
Gross write offs	$ 79	$ 3,182	$ 11	$ 8	$ —	$ —	$ 3,280

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Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the ALLL using incurred losses methodology. The following tables are disclosures related to loans in prior periods.

The following table presents the balance in the ALLL and the recorded investment in loans by loan segment and based on impairment method at December 31, 2022. The government guaranteed loan balances are included in the collectively evaluated for impairment balances.

	Real Estate-Residential	Real Estate-Commercial	Real Estate - Construction and Land	Commercial and Industrial	Commercial and Industrial - PPP	Consumer and Other	Unallocated	Total
Allowance for loan losses:								

Individually evaluated for impairment	$ —	$ 74	$ —	$ 499	$ —	$ —	$ —	$ 573
Collectively evaluated for impairment	731	882	28	5,683	—	1,090	59	8,473
Total	$ 731	$ 956	$ 28	$ 6,182	$ —	$ 1,090	$ 59	$ 9,046
Loans:								
Individually evaluated for impairment	$ —	$ 1,563	$ —	$ 1,854	$ —	$ —	$ —	$ 3,417
Collectively evaluated for impairment	202,329	229,718	9,320	192,789	19,293	37,288	—	690,737
Total	$ 202,329	$ 231,281	$ 9,320	$ 194,643	$ 19,293	$ 37,288	$ —	$ 694,154

For purposes of the impaired loans by loan segment table above, the unpaid principal balance and recorded investment do not include the government guaranteed balance. The government guaranteed balances of impaired loans at December 31, 2022 were $6,797.

The following table presents information related to impaired loans by loan segment at and for the nine months ended September 30, 2022:

	Unpaid Principal Balance	Recorded Investment	Allowance for Credit Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Real estate - residential	$ 246	$ 246	$ —	$ 165	$ —	$ —
Real estate - commercial	1,611	1,611	—	2,154	15	15
Subtotal	1,857	1,857	—	2,319	15	15
With an allowance recorded:						
Real estate - commercial	—	—	—	102	—	—
Commercial and industrial	2,388	2,388	949	1,176	—	—
Subtotal	2,388	2,388	949	1,278	—	—
Total	$ 4,245	$ 4,245	$ 949	$ 3,597	$ 15	$ 15

NOTE 6 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access at the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities Available for Sale: The fair values of investment securities available for sale are determined by matrix pricing, which is a mathematical technique used to value debt securities without relying exclusively on quoted prices for the specific investment securities, but rather by relying on the investment securities' relationship to other benchmark quoted investment securities (Level 2). Management obtains the fair values of investment securities available for sale on a monthly basis from a third party pricing service.

Residential Loans Held for Sale:The Company had elected to account for residential loans held for sale at fair value. The fair value of loans held for sale was determined using either actual quoted prices for the assets (Level 1) whenever possible or quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2). The fair value gain (loss) on loans held for sale is included in discontinued operations in the Consolidated Statements of Income.

Government Guaranteed Loans Held for Investment, HFI, at Fair Value: The Company has elected to account for certain government guaranteed loans held for investment HFI at fair value. Fair value is calculated based on the present value of estimated future payments (Level 3). The valuation model uses interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future payments. Whenever available, the present value is validated against available market data.

Mortgage Banking Derivatives: Mortgage banking derivatives used in the ordinary course of business primarily consisted of best efforts forward sales contracts. The fair value of best efforts forward sales contracts was measured using market observable inputs that were adjusted using unobservable inputs including duration, spread, and pull-through rates (Level 3).

Individually Evaluated Loans: Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the ACL. Loans are considered collateral dependent when the Company has determined that foreclosure of the collateral is probable or when a borrower is experiencing financial difficulty and the loan is expected to be repaid substantially through the operation or sale of collateral. A collateral dependent loan's ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. Fair value of the loan's collateral is determined by appraisals, independent valuation, or management's estimation of fair value which is then adjusted for the cost related to liquidation of the collateral. Collateral dependent loans are generally classified as Level 3 based on management's judgment and estimation.

(Dollars in thousands, except per share data)

Government Guaranteed Loan Servicing Rights: The fair value of government guaranteed loan servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. There were no government guaranteed loan servicing rights carried at fair value at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. On a quarterly basis, government guaranteed loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the cost. If the carrying amount exceeds fair value, impairment is recorded so that the servicing asset is carried at fair value.

Assets measured at fair value on a recurring basis at September 30, 2023 are summarized below. There were no liabilities carried at fair value on a recurring basis at September 30, 2023.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets				
Investment securities available for sale	$ —	$ 39,683	$ —	$ 39,683
Government guaranteed loans held for investment, at fair value	—	—	84,178	84,178

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Assets measured at fair value on a recurring basis at December 31, 2022 March 31, 2024 are summarized below. There were no liabilities carried at fair value on a recurring basis at December 31, 2022 March 31, 2024.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets / Financial assets				
Investment securities available for sale / Investment securities available for sale	$ —	$ 42,349	$ —	$42,349
Residential loans held for sale (1)	449	—	—	449
Government guaranteed loans held for investment, at fair value	—	—	27,078	27,078
Investment securities available for sale				
Investment securities available for sale				
Government guaranteed loans HFI, at fair value				
Government guaranteed loans HFI, at fair value				
Government guaranteed loans HFI, at fair value				

(Dollars in thousands, except per share data)

(1) Classified as assets from discontinued operations or Assets measured at fair value on a recurring basis at December 31, 2023 are summarized below. There were no liabilities from discontinued operations carried at fair value on the consolidated balance sheet.a recurring basis at December 31, 2023.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets				
Investment securities available for sale	$ —	$ 39,575	$ —	$ 39,575
Government guaranteed loans HFI, at fair value	—	—	91,508	91,508

There were no transfers between levels for assets and liabilities recorded at fair value on a recurring basis during the reported periods.

Financial Instruments Recorded Using Fair Value Option

The Company has elected the fair value option for residential loans held for sale. These loans are intended for sale and are classified as assets from discontinued operations on the consolidated balance sheet. The Company believes that the fair value is the best indicator of the resolution of these loans. Interest income from discontinued operations is recorded based on the contractual term of the loan and in accordance with the Company's policy on loans held for investment. There were no residential loans held for sale as of September 30, 2023. None of the loans were 90 days or more past due or on nonaccrual at December 31, 2022.

The aggregate fair value, contractual balance, and gain at December 31, 2022 for residential loans held for sale from discontinued operations were as follows:

	December 31, 2022
Aggregate fair value	$ 449
Contractual balance	434
Gain	$ 15

The total amount of interest income from discontinued operations and losses from changes in fair value included in earnings for the nine months ended September 30, 2023 and September 30, 2022 for residential loans held for sale from discontinued operations were as follows:

	Nine Months Ended September 30,	
	2023	2022
Interest income	$ 1	$ 2,466
Change in fair value	(15)	(3,784)
Total loss	$ (14)	$ (1,318)

The Company also elected the fair value option for certain of its government guaranteed loans held for investment HFI as the Company believed that fair value was the best indicator of the resolution of those loans at that time. Depending on market conditions and liquidity needs of the Company, management determines whether it is advantageous to hold or sell government guaranteed loans on a loan-by-loan basis. The portion of these loans guaranteed by the government are generally readily marketable in the secondary market and the portion of the loans that are not guaranteed may be sold periodically to other third party financial institutions. Interest income on these loans is recorded based on the contractual term of the loan and in accordance with the Company's policy on other loans held for investment. HFI.

The aggregate following tables provide more information about the fair value contractual balance, carrying amount and gain at September 30, 2023 and December 31, 2022 for the unpaid principal outstanding of HFI government guaranteed loans held for investment, measured at fair value were as follows: at March 31, 2024 and December 31, 2023.

	September 30, 2023	December 31, 2022
Aggregate fair value	$ 84,178	$ 27,078
Contractual balance	80,320	26,201
Gain	$ 3,858	$ 877

March 31, 2024								
Total Loans			Nonaccrual(1)			90 Days or More Past Due(1)		
Fair Value Carrying Amount	Unpaid Principal Balance	Fair Value Gain (Loss)	Fair Value Carrying Amount	Unpaid Principal Balance	Fair Value Gain (Loss)	Fair Value Carrying Amount	Unpaid Principal Balance	Fair Value Gain (Loss)

Real estate - commercial	$ 11,816	$ 12,437	$ (621)	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	65,953	63,713	2,240	835	960	(125)	69	79	(10)
Total loans HFI, at fair value	$ 77,769	$ 76,150	$ 1,619	$ 835	$ 960	$ (125)	$ 69	$ 79	$ (10)

	December 31, 2023								
	Total Loans			Nonaccrual(1)			90 Days or More Past Due(1)		
	Fair Value Carrying Amount	Unpaid Principal Balance	Fair Value Gain (Loss)	Fair Value Carrying Amount	Unpaid Principal Balance	Fair Value Gain (Loss)	Fair Value Carrying Amount	Unpaid Principal Balance	Fair Value Gain (Loss)
Real estate - commercial	$ 19,219	$ 19,156	$ 63	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	72,289	68,777	3,512	485	585	(100)	162	182	(20)
Total loans HFI, at fair value	$ 91,508	$ 87,933	$ 3,575	$ 485	$ 585	$ (100)	$ 162	$ 182	$ (20)

(1) The nonaccrual and 90 days or more past due loan balances do not include the portion of government guaranteed loan balances.

The total amount of gains and losses from changes in fair value and interest income included in earnings for the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 for government guaranteed loans held for investment, HFI, at fair value, were as follows:

	Nine Months Ended September 30,	
	2023	2022
	Three Months Ended March 31,	
	2024	2023
Interest income	$ 3,151	$1,112
Change in fair value	11,021	3,510
Total gain (loss)	$14,172	$4,622
Total gain		

Changes in fair value for government guaranteed loans held for investment, HFI, at fair value, were included in Government guaranteed loans fair value gain on the Consolidated Statements of Income.

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The table below presents a reconciliation of government guaranteed loans held for investment, HFI, at fair value, which were valued on a recurring basis and used significant unobservable inputs (Level 3) for the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023:

	Nine Months Ended September 30,	
	Three Months Ended March 31,	
	2023	2022
Balance of government guaranteed loans held for investment at fair value, beginning of period	$27,078	$ 9,614
	2024	2023

(Dollars in thousands, except per share data)

Balance of government guaranteed loans HFI at fair value, beginning of period			
New government guaranteed originations at fair value	New government guaranteed originations at fair value	143,535	53,697
Loans sold	Loans sold	(90,120)	(38,722)
Principal payments	Principal payments	(7,336)	(3,108)
Charge-offs		—	(26)
Total gains during the period	Total gains during the period	11,021	3,510
Balance of government guaranteed loans held for investment at fair value, end of period		$84,178	$24,965
Total gains during the period			
Total gains during the period			
Balance of government guaranteed loans HFI at fair value, end of period			

The Company's valuation of government guaranteed loans held for investment, HFI, at fair value, was supported by an analysis prepared by an independent third party and approved by management. The approach to determine fair value involved several steps: 1) identifying each loan's unique characteristics, including balance, payment type, term, coupon, age, and principal and interest payment; 2) projecting these loan level characteristics for the life of each loan; and 3) performing discounted cash flow modeling.

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The following table provides information about the valuation techniques and unobservable inputs used in the valuation of government guaranteed loans held for investment, at fair value, interest rate lock commitments, and best efforts forward sales contracts falling HFI that fall within Level 3 of the fair value hierarchy at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
September 30, 2023 March 31, 2024				
Government guaranteed loans held for investment, HFI at fair value	$ 84,178 77,769	Discounted	Discount rate	7.34%-10.84% (8.59% (9.05%)
at fair value		cash flow	Conditional prepayment rate	9.04%-13.29% (11.20% 10.43%-15.93% (14.47%)
December 31, 2022 2023				
Government guaranteed loans held for investment, HFI, at fair value	$ 27,078 91,508	Discounted	Discount rate	5.50%-10.00% (8.00% 7.36%-10.86% (8.74%)
at fair value		cash flow	Conditional prepayment rate	8.66%-10.15% (8.95% 10.38%-15.69% (13.91%)

The significant unobservable inputs impacting the fair value measurement of government guaranteed loans held for investment, HFI, at fair value, include discount rates and conditional prepayment rates. Increases in discount rates or prepayment rates would result in a lower fair value measurement. Although the prepayment rate and discount rate are not directly interrelated, they generally move in opposite directions. The discount rates and conditional prepayment rates were weighted by the relative principal balance outstanding of these loans.

Assets measured at fair value on a nonrecurring basis at September 30, 2023 March 31, 2024 are summarized below:

	Fair Value		Valuation Technique(s)	Significant Unobservable Input(s)	Discount % Amount
Individually evaluated loans	$	1,294	Discounted appraisals, estimated net realizable value of collateral	Collateral discounts	10%

	Fair Value	Valuation Technique(s)	Significant Unobservable Input(s)	Discount % Amount
Other real estate owned	3,002	Discounted appraisals, estimated net realizable value of collateral	Collateral discounts	10%

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Assets measured at fair value on a nonrecurring basis at December 31, 2022 December 31, 2023 are summarized below:

	Fair Value		Valuation Technique(s)	Significant Unobservable Input(s)	Discount % Amount
Impaired loans	$	1,355	Discounted appraisals, estimated net realizable value of collateral	Collateral discounts	10%

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	Fair Value		Valuation Technique(s)	Significant Unobservable Input(s)	Discount % Amount
Individually evaluated loans	$	135	Discounted appraisals, estimated net realizable value of collateral	Collateral discounts	10%

Fair Value of Financial Instruments

The carrying values and estimated fair values of financial instruments not carried at fair value, at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 are as follows:

		September 30, 2023				December 31, 2022			
	Level	Carrying Value		Fair Value		Carrying Value		Fair Value	
Assets:									
Cash and cash equivalents	1	$	112,553	$	112,553	$	66,046	$	66,046
Time deposits in banks	2		4,631		4,542		4,881		4,714
Investment securities held to maturity	2		2,482		2,282		5,002		4,755
Nonmarketable equity securities, at cost	2		4,250		4,250		5,537		5,537
Government guaranteed loans held for sale	2		1,855		1,959		—		—
Loans held for investment, at amortized cost	3		780,904		755,116		692,528		687,365
Accrued interest receivable (1)	2		6,907		6,907		4,454		4,454
Government guaranteed loan servicing rights	3		14,216		15,339		10,906		13,051
Mortgage loan servicing rights(2)	3		—		—		201		201
Liabilities:									
Noninterest-bearing deposits	2	$	98,008	$	98,008	$	93,235	$	93,235

(Dollars in thousands, except per share data)

Interest-bearing transaction accounts	2	267,404	267,404	202,656	202,656
Savings and money market deposits	2	350,110	350,110	363,053	363,053
Time deposits	2	302,274	295,703	136,126	134,564
FRB and FHLB borrowings	2	—	—	25,000	25,000
Subordinated debentures	2	5,947	4,959	5,992	5,270
Notes payable	2	2,503	2,482	2,844	2,843
Accrued interest payable	2	632	632	704	704

(1) Includes balances of $2 classified as assets from discontinued operations on the consolidated balance sheet as of December 31, 2022.

(2) Classified as assets from discontinued operations on the consolidated balance sheet.

		March 31, 2024		December 31, 2023	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and cash equivalents	1	$ 57,505	$ 57,505	$ 58,385	$ 58,385
Time deposits in banks	2	3,000	2,936	4,646	4,561
Investment securities held to maturity	2	2,487	2,352	2,484	2,263
Nonmarketable equity securities, at cost	2	5,228	5,228	4,770	4,770
Government guaranteed loans held for sale	2	2,226	2,437	—	—
Loans HFI, at amortized cost	3	843,193	816,699	810,721	786,350
Accrued interest receivable	2	7,625	7,625	7,130	7,130
Government guaranteed loan servicing rights	3	15,742	17,209	14,959	16,318
Liabilities:					
Noninterest-bearing deposits	2	$ 96,977	$ 96,977	$ 93,708	$ 93,708
Interest-bearing transaction accounts	2	250,478	250,478	259,422	259,422
Savings and money market deposits	2	391,915	391,915	373,000	373,000
Time deposits	2	267,945	263,186	259,008	255,372
FHLB borrowings	2	15,000	15,000	10,000	10,000
Subordinated debentures	2	5,950	5,242	5,949	5,215
Notes payable	2	2,276	2,256	2,389	2,369
Accrued interest payable	2	1,598	1,598	882	882

NOTE 7 – GOVERNMENT GUARANTEED LOAN SERVICING ACTIVITIES

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the principal balance of government guaranteed loans, excluding PPP loans, retained by the Company was $373,719 $375,431 and $300,219, $395,877, respectively, of which $176,062 $155,601 and $139,587 $181,459 represented the guaranteed portion of the loans. Loans serviced for others are not included in the accompanying Consolidated Balance Sheets. The unpaid principal balances of government guaranteed loans serviced for others requiring recognition of a servicing asset were $825,723 $950,793 and $660,600 $855,756 at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

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Activity for government guaranteed loan servicing rights for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 follows:

		Three Months Ended		Nine Months Ended			
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022		
		Three Months Ended					
		Three Months Ended					
		Three Months Ended					
	March 31, 2024					March 31, 2024	March 31, 2023
Beginning of period	Beginning of period	$ 12,820	$ 7,760	$ 10,906	$ 6,407		

(Dollars in thousands, except per share data)

Additions	Additions	2,543	2,918	6,390	5,741
Amortization	Amortization	(1,147)	(746)	(3,080)	(2,216)
End of period	End of period	$ 14,216	$ 9,932	$ 14,216	$ 9,932

The fair value of government guaranteed loan servicing rights was $15,339 $17,209 and $13,051 $16,318 at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Fair value was determined using a weighted average discount rate of 15.25% 14.63% and a weighted average prepayment speed of 10.71% 12.11% at September 30, 2023 March 31, 2024. Fair value was determined using a weighted average discount rate of 14.88% 14.50% and a weighted average prepayment speed of 9.93% 11.42% at December 31, 2022 December 31, 2023. The government guaranteed loan servicing rights are amortized over the life of a loan on a loan-by-loan basis.

The following table presents the components of net gain on sale of government guaranteed loans excluding sale of PPP loans, for the three and nine months ended September 30, 2023 and September 30, 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Gain on sale of guaranteed government guaranteed loans	$ 4,596	$ 4,685	$ 11,998	$ 10,723
Loss on sale of unguaranteed government guaranteed loans	—	(63)	(797)	(411)
Costs recognized on sale of government guaranteed loans	—	(94)	(15)	(138)
Fair value of servicing rights created	2,543	2,918	6,390	5,741
Gain on sale of government guaranteed loans, net	$ 7,139	$ 7,446	$ 17,576	$ 15,915

NOTE 8 - PREMISES AND EQUIPMENT

Premises and equipment at September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023	December 31, 2022
Land and improvements	$ 6,392	$ 4,488
Building and improvements	21,978	13,131
Leasehold improvements	3,302	2,833
Furniture, fixtures, and equipment	7,062	6,520
Fixed assets in process	6,226	14,716
Total premises and equipment	44,960	41,688
Accumulated depreciation and amortization	(6,968)	(6,248)
Net premises and equipment (1)	$ 37,992	$ 35,440

(1)There were no premises and equipment assets classified as assets from discontinued operations as of September 30, 2023 or December 31, 2022.

Depreciation and amortization expense including expense from discontinued operations was $616 and $509 for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022, respectively, and $1,744 and $1,505 for the nine months ended September 30, 2023 and September 30, 2022, respectively.March 31, 2023:

	Three Months Ended	
	March 31, 2024	March 31, 2023
Gain on sale of guaranteed portion of government guaranteed loans	$ 5,911	$ 2,812
Fair value of loan servicing rights created	2,178	1,597
Gain on sale of government guaranteed loans, net	$ 8,089	$ 4,409

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NOTE 9 8 – LEASES

For the three and nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, the components of total lease cost and supplemental information related to operating leases were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022

		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,			
		2024		2024	2023
Operating lease cost	Operating lease cost	$509	$387	$1,097	$1,159
Short-term lease cost	Short-term lease cost	(224)	190	(204)	463
Total lease cost, net (1)	Total lease cost, net (1)	$285	$577	$ 893	$1,622

(1) Includes lease costs reported as discontinued operations of $44 $71 and $232 $61 for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022, respectively, and $131 and $847 for the nine months ended September 30, 2023 and September 30, 2022 March 31, 2023, respectively.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31,			
		2024		2024	2023
Cash flows related to operating lease liabilities	Cash flows related to operating lease liabilities	$281	$388	$965	$1,156
Right-of-use assets obtained in exchange for new operating lease liabilities	Right-of-use assets obtained in exchange for new operating lease liabilities	—	627	—	627

(Dollars in thousands, except per share data)

At September 30, 2023 March 31, 2024, the weighted average discount rate of operating leases was 2.34% 2.45% and the weighted average remaining life of operating leases was 3.35 3.14 years.

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The future minimum lease payments for operating leases, subsequent to September 30, 2023 March 31, 2024, as recorded on the balance sheet, are summarized as follows:

2023		$	197
2024	2024		1,216
2025	2025		1,029
2026	2026		832
2027	2027		413
2028			
Thereafter	Thereafter		—
Total undiscounted lease payments	Total undiscounted lease payments	$	3,687
Less: imputed interest	Less: imputed interest		(160)
Net lease liabilities	Net lease liabilities	$	3,527

Impairment of ROU Assets

ROU assets from operating leases are subject to the impairment guidance in ASC 360, *Property, Plant, and Equipment,* and are reviewed for impairment when indicators of impairment are present. ASC 360 requires three steps to identify, recognize and measure impairment. If indicators of impairment are present (Step 1), the Company performs a recoverability test (Step 2) comparing the sum of the estimated undiscounted cash flows attributable to the ROU asset in question to the carrying amount. The Company estimates the fair value of the ROU asset and recognizes an impairment loss when the carrying amount exceeds the estimated fair value (Step 3).

During 2022, the Company closed leased mortgage lending offices as part of its discontinuance of the nationwide residential lending operation. The mortgage lending offices were evaluated as outlined above to determine whether the operating leases were impaired. As part of the recoverability test, the Company elected to exclude operating lease liabilities from the carrying amount of the asset group. The undiscounted future cash flows used in the recoverability test were based on assumptions made by the Company rather than market participant assumptions. Since an election was made to exclude operating lease liabilities from the asset or asset group, all future cash lease payments for the lease were also excluded. In addition, the Company elected to exclude operating lease liabilities from the estimated fair value, consistent with the

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recoverability test. When determining the fair value of the ROU asset, the Company estimated what market participants would pay to lease the assets assuming the highest and best use in the assets' current forms.

Based on the analysis, the Company concluded that the ROU assets for these offices were impaired and impaired. The ROU asset had a remaining ROU carrying value of $398 $300 as of September 30, 2023 March 31, 2024. The analyses resulted in was no additional impairment for the nine three months ended September 30, 2023 March 31, 2024.

NOTE 10 9 – OTHER BORROWINGS

At September 30, 2023 March 31, 2024, the Company had no $15,000 of borrowings at 5.58% from the FHLB and FRB. There were $25,000 of borrowings at 4.50% from the FRB and no borrowings from the FRB. There were $10,000 of borrowings at 5.57% from the FHLB and no borrowings from the FRB at December 31, 2022 December 31, 2023.

The Bank is a member of the FHLB of Atlanta, which provides short- and long-term funding collateralized by mortgage-related assets to its members. FHLB short-term borrowings bear interest at variable rates set by the FHLB. Any advances that the bank were to obtain would be secured by a blanket lien on $274,900 $304,516 of real estate-related loans as of September 30, 2023 March 31, 2024. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow up to $156,472 161,970 from the FHLB at September 30, 2023 March 31, 2024.

In addition, the Bank has a secured line of credit with the Federal Reserve Bank of Atlanta which was secured by $59,636 $54,847 of commercial loans as of September 30, 2023 March 31, 2024. FRB short-term borrowings bear interest at variable rates based on the Federal Open Market Committee's FOMC's target range for the federal funds rate. Based on this collateral, the Company was eligible to borrow up to $40,089 $38,538 from the FRB at September 30, 2023 March 31, 2024.

In June 2021, the The Company issued has $6,000 of Subordinated Debentures (the "Debentures") that mature June 30, 2031 and are redeemable after 5 years. years which is June 30, 2026. The Debentures carry interest at a fixed rate of 4.50% per annum for the initial 5 years of term and carry interest at a floating rate for the final 5 years of term. term after June 30, 2026. Under the debt agreements, the floating rates are based on a SOFR benchmark plus 3.78% per annum. The balance of Subordinated Debentures outstanding at the Company, net of offering costs, amounted to $5,947 $5,950 and $5,992 $5,949 at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

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The Company has a term note with quarterly principal and interest payments with interest at Prime (8.50% at September 30, 2023March 31, 2024). The note matures on March 10, 2029 and the balance of the note was $2,503$2,276 and $2,844$2,389 at September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023, respectively. The note is secured by 100% of the stock of the Bank and requires the Company to comply with certain loan covenants during the term of the note. As of September 30, 2023March 31, 2024, the Company was in compliance with all financial debt covenants.

NOTE 1110 – STOCK-BASED COMPENSATION

The Equity Plan governs the Company's restricted stock grants and stock options. Total compensation cost charged against income related to the Equity Plan was $167$62 and $186$147 for the three months ended September 30, 2023March 31, 2024 and September 30, 2022, respectively, and $486 and $609 for the nine months ended September 30, 2023 and September 30, 2022March 31, 2023, respectively.

Restricted Stock

The Company awarded shares of restricted common stock to certain employees and non-employee directors for which compensation expense is recognized ratably over the vesting period of the awards based on the fair value of the stock at issue date.

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A summary of changes in the Company's nonvested restricted shares for the ninethree months ended September 30, 2023March 31, 2024 and March 31, 2023 follows:

	Shares		Weighted-Average Grant-Date Fair Value, per share
Nonvested at January 1, 2023	22,000	$	21.52
Granted	46,175		18.30
Vested	(13,935)		(20.01)
Forfeited	(1,865)		(19.38)
Nonvested at September 30, 2023	52,375	$	18.75

Shares	Shares	Weighted-Average Grant-Date Fair Value, per share
Nonvested at January 1, 2024		
Granted		
Vested		
Forfeited		
Nonvested at March 31, 2024		

	Shares		Weighted-Average Grant-Date Fair Value, per share
Nonvested at January 1, 2023	22,000	$	21.52
Granted	46,175		18.30
Vested	(13,860)		21.45
Forfeited	(1,655)		19.40
Nonvested at March 31, 2023	52,660	$	18.75

(Dollars in thousands, except per share data)

At September 30, 2023 March 31, 2024, there was $598 $689 of total unrecognized compensation cost related to nonvested restricted shares granted under the Equity Plan that is expected to be recognized over a weighted average period of 2.9 years. The total fair value of shares vested during the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 was $252 $326 and $177, $251, respectively.

Stock Options

The Equity Plan permits the grant of stock options to the Company's employees and non-employee directors for up to 15% of the total number of shares of Company common stock issued and outstanding, up to 1,500,000 shares. Option awards are granted with an exercise price equal to the market price of the Company's common stock at the date of grant. The market price of the Company's common stock is the closing sales price of the Common Stock on Nasdaq on the date of the grant. Those option awards generally have a vesting period of 5 years for employees and 3 years for non-employee directors and have 10-year contractual terms.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatility is based on an average of historical volatility of peer financial institutions. The expected term of options granted represents the period of time that options granted are

expected to be outstanding, which takes into account that the options are not transferable. 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 grant.

A summary of the activity in the Equity Plan for the nine three months ended September 30, 2023 March 31, 2024 and March 31, 2023 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2023	405,688	$ 15.67		
Exercised	(30,375)	(15.71)		
Forfeited	(7,980)	(15.51)		
Outstanding at September 30, 2023	367,333	$ 15.67	5.93	$ —
Vested and exercisable at September 30, 2023	323,022	$ 15.79	5.78	$ —

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2024	367,033	$ 15.68		
Forfeited	(390)	(14.82)		
Outstanding at March 31, 2024	366,643	$ 15.68	5.41	$ —
Vested and exercisable at March 31, 2024	351,740	$ 15.71	5.36	$ —

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2023	405,688	$ 15.67		
Exercised	(30,375)	15.71		
Forfeited	(5,115)	15.53		
Outstanding at March 31, 2023	370,198	$ 15.67	6.42	$ 152
Vested and exercisable at March 31, 2023	321,957	$ 15.77	6.28	$ 121

There were no options granted during the three and nine months ended September 30, 2023 March 31, 2024 or September 30, 2022 March 31, 2023. Total unrecognized compensation cost related to nonvested stock options granted under the Equity Plan was $81 $41 at September 30, 2023 March 31, 2024. This cost is expected to be recognized over a weighted average period of 1.58 1.5 years.

NOTE 12 11 – OTHER BENEFIT PLANS

The Company has established a stock dividend reinvestment and stock purchase plan. Under the DRIP, eligible shareholders can voluntarily purchase stock with their dividend or can make additional stock purchases. During the nine three months ended September 30, 2023 March 31, 2024, 10,589 there were no shares purchased. During the three months ended March 31, 2023, 4,953 shares were purchased at an average price of $14.98. During the nine months ended September 30, 2022, 9,776 shares were purchased at an average price of $17.07.

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$17.01.

All employees and Directors are eligible to participate in the NSPP. Expense recognized in relation to the NSPP for the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 was $20 and $78, respectively. $7 for both periods.

The Company has a Salary Continuation Agreement (the "Agreement") with an executive officer. the Company's retired CEO. In accordance with the Agreement, the executive will receive an annual benefit of $25 for twenty years following separation of service. The liability recorded for the Agreement was $347 $355 and $336 $351 at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, and the related expense for the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 was $11 and $57, respectively. $4 for both periods. Payments are expected to begin in July 2024 upon from the retirement of the CEO on December 31, 2023.

The Company has a 401(k) plan that covers all employees subject to certain age and service requirements. The Company contributes 3% of each employee's salary each pay period as a safe harbor contribution. The Company may also match employee contributions each year at the discretion of the Board of Directors. There was no match of contributions in 2023. Expense recognized in relation to the 401(k) plan was $678 $345 and $1,333 $240 for the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, respectively.The discontinuation of the nationwide residential lending division during 2022 triggered a partial plan termination and all affected employees were 100% vested in the Company's contributions into the plan.

The Company has an ESOP for eligible employees. Each year, the Company's Board of Directors may approve a discretionary percentage of employees' salaries to be contributed to the ESOP for eligible employees. In 2021, the ESOP trust acquired 14,154 shares of the Company's stock. As this is a leveraged plan, unallocated shares are distributed to employees annually. There were 11,323 8,493 unallocated shares with a fair value of $127 $110 and 14,154 unallocated shares with a fair value of $237 remaining as of September 30, 2023 March 31, 2024 and March 31, 2023, respectively. The ESOP trust's outstanding loan, which is secured by the unallocated shares, bears a fixed interest rate equal to the Prime Rate as of the note date, which was

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3.25%. The note requires an annual payment of principal and interest through December 2026. The Company's ESOP, which is internally leveraged, does not report the loan receivable extended to the ESOP as an asset and does not report the ESOP debt due to the Company.

The discontinuation of the nationwide residential lending division during 2022 triggered a partial plan termination and all affected employees were 100% vested in the Company's contributions into the ESOP. As a result of the exit of affected participants from the plan, the plan acquired 23,383 shares of the Company's stock. As this is a leveraged plan, unallocated shares are distributed to employees annually. There were 23,383 18,706 unallocated shares with a fair value of $263 $242 remaining as of September 30, 2023 March 31, 2024. The ESOP trust was issued a five year loan bearing an interest rate equal to the Prime Rate as of the note date, which was 8.25% and adjusts annually as of the first day of each succeeding calendar year to reflect the Prime Rate as of the first business day of the calendar year. The note requires an annual payment of principal and interest through December 2027. The Company's ESOP, which is internally leveraged, does not report the loan receivable extended to the ESOP as an asset and does not report the ESOP debt due to the Company.

The Board did not approve any contributions in 2022 and has not approved any in 2023. There was no $136 of expense related to the ESOP for the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 no expense for the three months ended March 31, 2023.

NOTE 13 - INCOME TAXES

The Company and its subsidiaries are subject to U.S. federal income tax. In the ordinary course of business, they are routinely subject to audit by the Internal Revenue Service. Currently, the Company is subject to examination by taxing authorities for the 2020 tax return year and forward.

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(Dollars in thousands, except per share data)

A reconciliation of expected income tax expense (benefit) using the federal statutory rate of 21% for the three and nine months ended September 30, 2023 and September 30, 2022 and actual income tax expense (benefit) is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Federal tax based on federal corporate statutory rate	$ 555	$ 854	$ 1,190	$ 893
State tax, net of federal effect	81	187	173	132
Changes resulting from:				
BOLI income	(6)	(20)	(18)	(32)
Other, net	44	(38)	70	(105)
Income tax expense from continuing operations	674	983	1,415	888
Income tax (benefit) from discontinued operations	(15)	(1,488)	(68)	(1,670)
Total income tax expense (benefit)	$ 659	$ (505)	$ 1,347	$ (782)

NOTE 1412 – 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. Management believes that the Bank met all capital adequacy requirements to which it was subject at September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's classification.

In February 2019, the federal bank regulatory agencies issued a final rule that revised certain capital regulations under ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and included a transition option that allows banking organizations to phase in, over a three year period, the day one adverse effects of adoption on their regulatory capital ratios (three year transition option). In connection with the adoption of ASC 326 on January 1, 2021January 1, 2023, the Company recognized an after-tax cumulative effect reduction to retained earnings. The

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Company elected to adopt the three year transition option and the deferral has been applied in capital ratios presented below. Actual and required capital amounts and ratios for the Bank are presented below at September 30, 2023March 31, 2024:

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital Total Capital						
(to Risk Weighted Assets) (to Risk Weighted Assets)	$109,171	13.47 %	$ 64,858	8.00 %	$81,072	10.00 %
Tier 1 Capital Tier 1 Capital						
(to Risk Weighted Assets) (to Risk Weighted Assets)	$ 99,010	12.21 %	$ 48,643	6.00 %	$64,858	8.00 %

	Actual			Actual		Requ Adeq
	Amount			Amount	Ratio	Amount
(to Risk Weighted Assets)						
(to Risk Weighted Assets)						
	$113,545	12.29	12.29 %	$73,904	8.00	8.

(to Risk Weighted Assets)															
(to Risk Weighted Assets)								$101,974		11.04 %		$	55,428		6.
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital														
(to Risk Weighted Assets)															
(to Risk Weighted Assets)															
(to Risk Weighted Assets)	(to Risk Weighted Assets)	$ 99,010	12.21 %	$ 36,482	4.50 %	$52,697	6.50 %	$101,974	11.04	11.04 %		$41,571		4.50	4.
Tier 1 Capital	Tier 1 Capital														
(to Average Assets)	(to Average Assets)	$ 99,010	9.16 %	$ 43,258	4.00 %	$54,072	5.00 %								
(to Average Assets)															
(to Average Assets)								$101,974		9.12 %		$	44,708		4.

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BAYFIRST FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in thousands, except per share data)

Actual and required capital amounts and ratios for the Bank are presented below at December 31, 2022 December 31, 2023:

		Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Regulations									
		Amount	Ratio	Amount	Ratio	Amount	Ratio								
	Actual								Actual				Requ Adeq		
	Amount								Amount		Ratio		Amount		
Total Capital	Total Capital														
(to Risk Weighted Assets)															
(to Risk Weighted Assets)															
(to Risk Weighted Assets)	(to Risk Weighted Assets)	$108,307	15.00 %	$ 57,767	8.00 %	$72,209	10.00 %	$114,256	13.03	13.03 %		$70,169		8.00	8.
Tier 1 Capital	Tier 1 Capital														
(to Risk Weighted Assets)	(to Risk Weighted Assets)	$ 99,269	13.75 %	$ 43,325	6.00 %	$57,767	8.00 %								
(to Risk Weighted Assets)															
(to Risk Weighted Assets)								$103,274		11.77 %		$	52,627		6.
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital														
(to Risk Weighted Assets)															

(Dollars in thousands, except per share data)

(to Risk Weighted Assets)															
(to Risk Weighted Assets)	(to Risk Weighted Assets)	$	99,269	13.75 %	$	32,494	4.50 %	$46,936	6.50 %	$103,274	11.77	11.77 %	$39,470	4.50	4.
Tier 1 Capital	Tier 1 Capital														
(to Average Assets)	(to Average Assets)	$	99,269	10.79 %	$	36,816	4.00 %	$46,020	5.00 %						
(to Average Assets)															
(to Average Assets)										$103,274		9.38 %	$	44,024	4.

Dividend Restrictions

Banking regulations limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits of the Bank for that year combined with the retained net profits for the preceding two years.

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NOTE 15 – MORTGAGE BANKING ACTIVITIES - DISCONTINUED OPERATIONS

The following table presents the components of the residential loan fee income from discontinued operations for the three and nine months ended September 30, 2023 and September 30, 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net gain realized on sale of residential loans held for sale	$ —	$ 5,988	$ 13	$ 19,295
Net change in fair value recognized on residential loans held for sale	—	(1,745)	(15)	(3,784)
Net change in fair value recognized on interest rate lock commitments	—	(1,094)	—	(1,362)
Net change in fair value recognized on mandatory and best efforts forward sales contracts	—	2,940	—	12,514
Mortgage banking fees	—	1,022	—	3,851
Residential loan fee income from discontinued operations	$ —	$ 7,111	$ (2)	$ 30,514

Prior to the discontinuance of the nationwide mortgage operations, the Company entered into interest rate lock commitments, which were commitments to originate loans where the interest rate on the loan was determined prior to funding and the clients had locked into that interest rate. The Company then locked in the loan and interest rate with an investor and committed to deliver the loan if settlement occurred ("best efforts") or committed to deliver the locked loan in a binding ("mandatory") delivery program with an investor. It was the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments were entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. Interest rate lock commitments and mandatory commitments to deliver loans to investors were considered derivatives.

There were no mortgage banking derivatives outstanding as of September 30, 2023. The following table reflects the amount and fair value of mortgage banking derivatives included in the assets and liabilities from discontinued operations on the Consolidated Balance Sheets at December 31, 2022:

	December 31, 2022	
	Notional Amount	Fair Value
Included in other assets from discontinued operations:		
Best efforts forward sales contracts	$ 221	$ —

NOTE 16 13 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, and letters of credit, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies that are used for loans are used to make such commitments, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance sheet risk at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were as follows:

	September 30, 2023	December 31, 2022

Unfunded loan commitments	$ 20,459	$ 23,512
Unused lines of credit	169,634	134,366
Standby letters of credit	61	244

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	March 31, 2024	December 31, 2023
Unfunded loan commitments	$ 8,018	$ 7,392
Unused lines of credit	188,073	178,440
Standby letters of credit	211	186

All unused lines of credit at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were variable rate lines of credit and the majority of unfunded loan commitments at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were commitments to fund variable rate loans. Unfunded loan commitments are generally entered into for periods of 90 days or less.

The Company maintains an ACL for its off-balance sheet loan commitments which is calculated by loan type using estimated line utilization rates based on historical usage. Loss rates for outstanding loans is applied to the estimated utilization rates to calculate the ACL for off-balance sheet loan commitments. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, ACL for off-balance sheet loan commitments totaled $844 and $511, respectively. $839 for both periods.

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`NOTE 17 14 – EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Basic:				
Income from continuing operations	$ 1,970	$ 3,083	$ 4,254	$ 3,365
Loss from discontinued operations	(47)	(4,485)	(207)	(5,036)
Net income (loss)	1,923	(1,402)	4,047	(1,671)
Less: Preferred stock dividends	208	208	624	624
Net income available to (loss attributable to) common shareholders	$ 1,715	$ (1,610)	$ 3,423	$ (2,295)
Weighted average common shares outstanding	4,105,014	4,028,212	4,096,584	4,015,476
Basic earnings (loss) per common share:				
Continuing operations	$ 0.43	$ 0.71	$ 0.89	$ 0.68
Discontinued operations	(0.01)	(1.11)	(0.05)	(1.25)
Total	$ 0.42	$ (0.40)	$ 0.84	$ (0.57)
Diluted:				
Income from continuing operations	$ 1,970	$ 3,083	$ 4,254	$ 3,365
Loss from discontinued operations	(47)	(4,485)	(207)	(5,036)
Net income (loss)	1,923	(1,402)	4,047	(1,671)
Less: Preferred stock dividends	208	208	624	624
Add: Series B preferred stock dividends	64	64	193	193
Net income available to (loss attributable to) common shareholders	$ 1,779	$ (1,546)	$ 3,616	$ (2,102)
Weighted average common shares outstanding for basic earnings per common share	4,105,014	4,028,212	4,096,584	4,015,476
Add: Dilutive effects of conversion of Series B preferred stock to common stock	250,690	270,743	253,626	270,743

(Dollars in thousands, except per share data)

Add: Dilutive effects of assumed exercises of stock options and warrants	—	42,163	4,098	62,961
Average shares and dilutive potential common shares	4,355,704	4,341,118	4,354,308	4,349,180
Diluted earnings (loss) per common share:				
Continuing operations	$ 0.42	$ 0.68	$ 0.88	$ 0.67
Discontinued operations	(0.01)	(1.03)	(0.05)	(1.15)
Total	$ 0.41	$ (0.35)	$ 0.83	$ (0.48)

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	Three Months Ended March 31,	
	2024	2023
Basic:		
Income from continuing operations	$ 883	$ 867
Loss from discontinued operations	(59)	(128)
Net income	824	739
Less: Preferred stock dividends	385	208
Net income available to common shareholders	$ 439	$ 531
Weighted average common shares outstanding	4,130,484	4,080,683
Basic earnings (loss) per common share:		
Continuing operations	$ 0.12	$ 0.16
Discontinued operations	(0.01)	(0.03)
Total	$ 0.11	$ 0.13
Diluted:		
Income from continuing operations	$ 883	$ 867
Loss from discontinued operations	(59)	(128)
Net income	824	739
Less: Preferred stock dividends	385	208
Add: Series B preferred stock dividends	—	—
Net income available to common shareholders	$ 439	$ 531
Weighted average common shares outstanding for basic earnings per common share	4,130,484	4,080,683
Add: Dilutive effects of conversion of Series B preferred stock to common stock	—	—
Add: Dilutive effects of assumed exercises of stock options and warrants	—	—
Average shares and dilutive potential common shares	4,130,484	4,080,683
Diluted earnings (loss) per common share:		
Continuing operations	$ 0.12	$ 0.16
Discontinued operations	(0.01)	(0.03)
Total	$ 0.11	$ 0.13

The following securities outstanding at September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 have been excluded from the calculation of weighted average shares outstanding as their effect on the calculation of earnings (loss) per share is are antidilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Common stock options	367,461	0	374,802	0

	Three Months Ended March 31,	
	2024	2023
Common stock options	366,776	202,686
Convertible Series B preferred stock	3,210	3,210
Convertible Series C preferred stock	6,446	0

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is an analysis of the results of operations for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 and financial condition as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes.

In addition to the historical information contained herein, this Form 10-Q includes "forward-looking statements" within the meaning of such term in the Private Securities Litigation Reform Act of 1995. These statements are subject to many risks and uncertainties, including, but not limited to, the effects of health crises, global military hostilities, or climate changes, including its effects on the economic environment, its customers and its operations, as well as any changes to federal, state or local government laws, regulations or orders in connection with them; the ability of the Company to implement its strategy and expand its banking operations; changes in interest rates and other general economic, business and political conditions, including changes in the financial markets or global military hostilities; changes in business plans as circumstances warrant; risks related to mergers and acquisitions; changes in benchmark interest rates used to price loans and deposits, changes in tax laws, regulations and guidance; and other risks detailed from time to time in filings made by the Company with the SEC. Readers should note that the forward-looking statements included herein are not a guarantee of future events, and that actual events may differ materially from those made in or suggested by the forward-looking statements.

Forward-looking statements generally can be identified by the use of forward-looking terminology such as "will," "propose," "may," "plan," "seek," "expect," "intend," "estimate," "anticipate," "believe," "continue," or similar terminology. Any forward-looking statements presented herein are made only as of the date of this document, and the Company does not undertake any obligation to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, or otherwise.

Overview

The following discussion and analysis presents the financial condition and results of operations on a consolidated basis. However, because the Company conducts all of its material business operations through the Bank, the discussion and analysis relates to activities primarily conducted at the subsidiary level. The following discussion should be read in conjunction with the consolidated financial statements.

As a one-bank holding company, the Company generates most of its revenue from interest on loans and gain-on-sale income derived from the sale of government guaranteed loans into the secondary market. The primary source of funding for its loans is deposits. The Company is dependent on noninterest income, which is derived primarily from net gain on the sales of the guaranteed portion of government guaranteed loans. The largest expenses are interest on those deposits and borrowings, professional fees, loan origination expenses, and salaries and commissions plus related employee benefits. The Company measures its performance through its net interest income after provision for credit losses, return on average assets, and return on average common equity, while maintaining appropriate regulatory leverage and risk-based capital ratios.

Application of Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in accordance with GAAP requires the Company to make estimates and judgments that affect reported amounts of assets, liabilities, income and expenses and related disclosure of contingent assets and liabilities. The Company bases those estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Estimates are evaluated on an ongoing basis. Actual results may differ from these estimates.

Accounting policies, as described in detail in the notes to the Company's consolidated financial statements, are an integral part of the Company's consolidated financial statements. A thorough understanding of these accounting policies is essential when reviewing the Company's reported results of operations and financial position. Management believes that the critical accounting policies and estimates listed below require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain. At September 30, 2023 March 31, 2024, the most critical of these significant accounting policies in understanding the estimates and assumptions involved in preparing the consolidated financial statements were the policies related to the ACL and fair value measurement of investment securities, government guaranteed loan servicing rights and government guaranteed loans held for investment HFI at fair value, which are discussed more fully below.

Allowance for Credit Losses

The ACL is calculated with the objective of maintaining a reserve sufficient to absorb estimated losses. Management's determination of the appropriateness of the allowance is based on periodic evaluations of the loan portfolio, lending-related commitments, and other relevant factors. This evaluation is inherently subjective as it requires numerous estimates, including the loss for internal risk ratings, collateral values, and the amounts and timing of expected future cash flows. The Company's ACL on loans is estimated using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. In addition, management may include qualitative adjustments intended to capture the impact of other uncertainties in the lending environment such as underwriting standards, current economic and political conditions, and other factors affecting the credit quality. Changes to one or more of the estimates used could result in a different estimated ACL.

Fair Value Measurements

Investments and certain government guaranteed loans are recorded at fair value on a recurring basis. Additionally, from time to time, other assets and liabilities may be recorded at fair value on a nonrecurring basis, such as impaired loans, other real estate, government guaranteed servicing rights, and certain other assets and liabilities. Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date and is based on the assumptions market participants would use when pricing an asset or liability. Fair value measurement and disclosure guidance establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. Valuations generated from model-based techniques that use at least one significant assumption not observable in the market are considered Level 3 and reflect estimates of assumptions market participants would use in pricing the asset or liability.December 31, 2023 Form 10-K.

Changes in these estimates that are likely to occur from period to period, or the use of different estimates that the Company could have reasonably used in the current period, could have a material impact on the Company's financial position or results of operation.

Further, the Company is an emerging growth company. The JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected to take advantage of this extended transition period. This means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies do so. This may make the Company's financial statements not comparable with those of public companies which are neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period because of the potential differences in accounting standards used.

Recent Developments

Preferred Stock Offering. On September 30, 2023, the Company issued 1,835 shares of 11.0% Series C Cumulative Convertible Preferred Stock. These shares have no par value and a liquidation preference of $1,000 per share plus an amount equal to all accumulated dividends thereon (whether or not earned or declared but without interest) to the date payment of such distribution is made in full. An additional 1,995 shares and 1,760 shares were issued on October 18, 2023 and October 31, 2023, respectively. Total gross proceeds from the preferred stock offering currently totals $5.59 million,

which will be used for operating expenses or to contribute capital to BayFirst National Bank to support its growth and operations.

Fourth Second Quarter Common Stock Dividend. On October 24, 2023 April 23, 2024, BayFirst's Board of Directors declared a fourth second quarter 2023 2024 cash dividend of $0.08 per common share, payable December 15, 2023 June 15, 2024 to common shareholders of record as of December 1, 2023 June 1, 2024. This dividend marks the 30th consecutive The Company has continuously paid quarterly cash dividend paid since BayFirst initiated common stock cash dividends in since 2016.

Fourth Second Quarter Preferred Series A Stock Dividend. BayFirst's Board of Directors declared a quarterly cash dividend of $22.50 on the Series A Preferred Stock. The dividend will be payable January 2, 2024 July 1, 2024 to shareholders of record as of October 16, 2023 April 15, 2024. The amount and timing of the dividend is in accordance with the terms of the Series A Preferred Stock.

Fourth Second Quarter Preferred Series B Stock Dividend. BayFirst's Board of Directors declared a quarterly cash dividend of $20.00 on the Series B Convertible Preferred Stock. The dividend will be payable January 2, 2024 July 1, 2024 to shareholders of record as of October 16, 2023 April 15, 2024. The amount and timing of the dividend is in accordance with the terms of the Series B Convertible Preferred Stock.

Fourth Second Quarter Preferred Series C Stock Dividend. BayFirst's Board of Directors declared a quarterly cash dividend of $27.50 on the Series C Cumulative Convertible Preferred Stock. The dividend will be payable January 2, 2024 July 1, 2024 to shareholders of record as of October 16, 2023 April 15, 2024. The amount and timing of the dividend is in accordance with the terms of the Series C Cumulative Convertible Preferred Stock.

Selected Financial Data - Unaudited

	As of and for the Three Months Ended			As of and for the Nine Months Ended	
(Dollars in thousands, except for share data)	**9/30/2023**	**6/30/2023**	**9/30/2022**	**9/30/2023**	**9/30/2022**
Income Statement Data:					
Net interest income	$ 8,393	$ 10,108	$ 9,170	$ 27,554	$ 21,426
Provision for credit losses(1)	3,001	2,765	750	7,708	(1,400)

Noninterest income	14,679	10,937	9,804	35,064	23,146
Noninterest expense	17,427	16,402	14,158	49,241	41,719
Income tax expense (benefit)	674	461	983	1,415	888
Net income from continuing operations	1,970	1,417	3,083	4,254	3,365
Net loss from discontinued operations	(47)	(32)	(4,485)	(207)	(5,036)
Net income (loss)	1,923	1,385	(1,402)	4,047	(1,671)
Preferred stock dividends	208	208	208	624	624
Net income available to (loss attributable to) common shareholders	$ 1,715	$ 1,177	$ (1,610)	$ 3,423	$ (2,295)
Balance Sheet Data:					
Average loans held for investment, excluding PPP loans	$ 841,920	$ 824,460	$ 663,716	$ 804,993	$ 582,432
Average loans held for investment at amortized cost, excluding PPP loans	773,749	763,854	625,129	746,876	554,177
Average total assets	1,088,517	1,064,068	939,847	1,041,131	897,588
Average common shareholders' equity	81,067	80,310	83,014	80,080	83,408
Total loans held for investment	878,447	836,704	680,805	878,447	680,805
Total loans held for investment, excluding PPP loans	863,203	821,016	658,669	863,203	658,669
Total loans held for investment, excluding government guaranteed loan balances	687,141	638,148	520,408	687,141	520,408
Allowance for credit losses(1)	13,365	12,598	9,739	13,365	9,739
Total assets	1,133,979	1,087,399	930,275	1,133,979	930,275
Common shareholders' equity	82,725	81,460	81,032	82,725	81,032

	As of and for the Three Months Ended		
(Dollars in thousands, except for share data)	**3/31/2024**	**12/31/2023**	**3/31/2023**
Income Statement Data:			
Net interest income	$ 8,742	$ 8,877	$ 9,053
Provision for credit losses	4,058	2,737	1,942
Noninterest income	14,268	14,691	9,448
Noninterest expense	17,773	18,466	15,412
Income tax expense	296	704	280
Net income from continuing operations	883	1,661	867
Net loss from discontinued operations	(59)	(6)	(128)
Net income	824	1,655	739
Preferred stock dividends	385	341	208
Net income available to common shareholders	$ 439	$ 1,314	$ 531
Balance Sheet Data:			
Average loans HFI	$ 934,868	$ 915,726	$ 792,777
Average loans HFI at amortized cost	857,099	824,218	723,730

	As of and for the Three Months Ended			As of and for the Nine Months Ended	
(Dollars in thousands, except for share data)	**9/30/2023**	**6/30/2023**	**9/30/2022**	**9/30/2023**	**9/30/2022**
Per Share Data:					
Basic earnings (loss) per common share	$ 0.42	$ 0.29	$ (0.40)	$ 0.84	$ (0.57)
Diluted earnings (loss) per common share	$ 0.41	$ 0.29	$ (0.35)	$ 0.83	$ (0.48)
Dividends per common share	$ 0.08	$ 0.08	$ 0.08	$ 0.24	$ 0.24
Book value per common share	$ 20.12	$ 19.85	$ 20.10	$ 20.12	$ 20.10

Tangible book value per common share (2)	$ 20.12	$ 19.85	$ 20.10	$ 20.12	$ 20.10
Performance Ratios:					
Return on average assets(3)	0.71 %	0.52 %	(0.60)%	0.52 %	(0.25)%
Return on average common equity(3)	8.46 %	5.86 %	(7.76)%	5.70 %	(3.67)%
Net interest margin	3.36 %	4.18 %	4.63 %	3.89 %	3.90 %
Dividend payout ratio	19.15 %	27.89 %	(20.02)%	28.72 %	(41.99)%
Asset Quality Data:					
Net charge-offs	$ 2,234	$ 2,253	$ 575	$ 6,375	$ 2,313
Net charge-offs/average loans held for investment at amortized cost, excluding PPP(3)	1.15 %	1.18 %	0.37 %	1.14 %	0.56 %
Nonperforming loans	$ 10,393	$ 8,606	$ 10,267	$ 10,393	$ 10,267
Nonperforming loans (excluding government guaranteed balance)	$ 8,776	$ 6,590	$ 4,015	$ 8,776	$ 4,015
Nonperforming loans/total loans held for investment	1.18 %	1.03 %	1.51 %	1.18 %	1.51 %
Nonperforming loans (excluding gov't guaranteed balance)/total loans held for investment	1.00 %	0.79 %	0.59 %	1.00 %	0.59 %
ACL/Total loans held for investment at amortized cost(1)	1.68 %	1.61 %	1.48 %	1.68 %	1.48 %
ACL/Total loans held for investment at amortized cost, excluding PPP loans(1)	1.72 %	1.64 %	1.54 %	1.72 %	1.54 %
Other Data:					
Full-time equivalent employees	307	302	524	307	524
Banking centers	10	9	8	10	8

(1) Prior to January 1, 2023, the incurred loss methodology was used to estimate credit losses. Beginning with that date, credit losses are estimated using the CECL methodology.

(2) See section entitled "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" below for a reconciliation to most comparable GAAP equivalent.

(3) Annualized

	As of and for the Three Months Ended		
(Dollars in thousands, except for share data)	**3/31/2024**	**12/31/2023**	**3/31/2023**
Average total assets	1,126,315	1,108,550	969,489
Average common shareholders' equity	85,385	82,574	78,835
Total loans HFI	934,868	915,726	792,777
Total loans HFI, excluding government guaranteed loan balances	776,302	698,106	596,505
Allowance for credit losses	13,906	13,497	12,208
Total assets	1,144,194	1,117,766	1,069,839
Common shareholders' equity	84,578	84,656	80,734
Per Share Data:			
Basic earnings per common share	$ 0.11	$ 0.32	$ 0.13
Diluted earnings per common share	$ 0.11	$ 0.32	$ 0.13
Dividends per common share	$ 0.08	$ 0.08	$ 0.08
Book value per common share	$ 20.45	$ 20.60	$ 19.70
Tangible book value per common share(1)	$ 20.45	$ 20.60	$ 19.70
Performance Ratios:			
Return on average assets(2)	0.29 %	0.60 %	0.30 %
Return on average common equity(2)	2.06 %	6.37 %	2.69 %
Net interest margin(2)	3.42 %	3.48 %	4.17 %
Dividend payout ratio	75.27 %	25.03 %	61.48 %
Asset Quality Data:			
Net charge-offs	$ 3,652	$ 2,612	$ 1,887
Net charge-offs/average loans HFI at amortized cost(2)	1.71 %	1.27 %	1.05 %
Nonperforming loans(3)	$ 9,877	$ 9,688	$ 5,890
Nonperforming loans (excluding government guaranteed balance)(3)	$ 7,568	$ 8,264	$ 2,095
Nonperforming loans/total loans HFI(3)	1.15 %	1.18 %	0.81 %

Nonperforming loans (excluding gov't guaranteed balance)/total loans HFI(3)	0.88 %	1.00 %	0.29 %
ACL/Total loans HFI at amortized cost	1.62 %	1.64 %	1.69 %
Other Data:			
Full-time equivalent employees	313	305	300
Banking centers	12	11	9

(1) See section entitled "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" below for a reconciliation to most comparable GAAP equivalent.

(2) Annualized

(3) Excludes loans measured at fair value

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GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Some of the financial measures included in this report are not measures of financial condition or performance recognized by GAAP. These non-GAAP financial measures include tangible common shareholders' equity and tangible book value per common share. The management team uses these non-GAAP financial measures in its analysis of its performance, and they believe that providing this information to financial analysts and investors allows them to evaluate capital adequacy.

The following presents these non-GAAP financial measures along with their most directly comparable financial measures calculated in accordance with GAAP:

Tangible Common Shareholders' Equity and Tangible Book Value Per Common Share

As of

Tangible Common Shareholders' Equity and Tangible Book Value Per Common Share (Unaudited)

Tangible Common Shareholders' Equity and Tangible Book Value Per Common Share (Unaudited)

		As of						As of
(Dollars in thousands, except for share data)	*(Dollars in thousands, except for share data)*	**September 30, 2023**	**June 30, 2023**	**September 30, 2022**	*(Dollars in thousands, except for share data)*	**March 31, 2024**	**December 31, 2023**	**March 31, 2023**
		(Unaudited)	*(Unaudited)*	*(Unaudited)*				
Total shareholders' equity	Total shareholders' equity	$ 94,165	$ 91,065	$ 90,637				
Less: Preferred stock liquidation preference	Less: Preferred stock liquidation preference	(11,440)	(9,605)	(9,605)				
Total equity available to common shareholders	Total equity available to common shareholders	82,725	81,460	81,032				
Less: Goodwill	Less: Goodwill	—	—	—				
Tangible common shareholders' equity	Tangible common shareholders' equity	$ 82,725	$ 81,460	$ 81,032				

Common shares outstanding	Common shares outstanding	4,110,650	4,103,834	4,031,937
Common shares outstanding				
Common shares outstanding				
Tangible book value per common share	Tangible book value per common share	$ 20.12	$ 19.85	$ 20.10

Results of Operations

BayFirst's operating results depend on its net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities, consisting primarily of deposits. Net interest income is determined by the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest rate spread") and the relative amounts of interest-earning assets and interest-bearing liabilities. The interest rate spread is affected by regulatory, economic, and competitive factors which influence interest rates, loan demand, and deposit flows. In addition, its the Company's operating results can be affected by the level of nonperforming assets, as well as the level of the noninterest income and the noninterest expenses, such as salaries and employee benefits, and occupancy and equipment costs, and loan origination expenses as well as income taxes.

The Company is dependent on noninterest income, which is derived primarily from net gain on the sales of the guaranteed portion of government guaranteed loans, as well as fair value adjustments for certain loans which management has elected the fair value option. While the Company retains some of its government guaranteed loans on the balance sheet, the Company may sell both the guaranteed balance of its government guaranteed loans, as well as a percentage of the unguaranteed portions of such loans.

In the second quarter of 2022, the Bank discontinued its primary consumer direct residential mortgage business line. In the third quarter of 2022, management decided to discontinue the nationwide residential lending business. As a result of the discontinuance, the nationwide residential line of business was reclassified as a discontinued operation and reported in the financial statements as such.

Net Income

The Company had net income for the three months ended September 30, 2023 March 31, 2024 of $1.9 million $0.8 million, or $0.41 $0.11 per diluted common share, compared to net loss income for the three months ended September 30, 2022 March 31, 2023 of $1.4 million $0.7 million, or $0.35 $0.13 per diluted common share. The increase of $3.3 million in net income was primarily due to an increase increases in gain on sale of government guaranteed loans of $3.5 million, an increase in $3.7 million and other noninterest income of $1.4 million, and a decrease of $4.4 million in the net loss on discontinued operations. $1.3 million. This was partially offset by a decrease in net interest income of $0.8 million, an increase of $2.3 million increases in provision for credit losses of $2.1 million and an increase in noninterest expense of $3.3 million $2.4 million. In the third quarter of 2022, the Company made the strategic decision to discontinue the Bank's nationwide residential mortgage operations which resulted in the net loss from discontinued operations.

In the first nine months of 2023, net income was $4.0 million, or $0.83 per diluted common share, an increase of $5.7 million from the net loss of $1.7 million, or $0.48 per diluted common share, for the first nine months of 2022. The increase was primarily the result of higher interest income from continuing operations of $23.6 million, an increase of $7.5 million in government guaranteed loan fair value gains, an increase in other noninterest income of $1.9 million, an increase of $1.7 million in gain on sale of government guaranteed loans, and a decrease of $4.8 million in net loss from discontinued operations. This was partially offset by an increase of $16.9 million in interest expense on deposits, an increase of $9.1 million in provision for credit losses, and an increase of $7.5 million in noninterest expense.

Net Interest Income

Net interest income from continuing operations was $8.4 million in $8.7 million for the three months ended September 30, 2023 March 31, 2024, a decrease of $0.8 million $0.3 million or 8.5% 3.4% from $9.2 million in the three months ended September 30, 2022 March 31, 2023. The decrease was mainly due to higher interest expense on deposits of $7.2 million $5.3 million, partially offset by an increase in loan interest income, including fees, of $5.4 million $5.2 million. The margin compression was primarily from higher deposit interest expense during the current quarter, specifically the Company's 6%, 13-month time deposit special, which ended on August 31, 2023. The additional time deposits, which replaced other non-core funding, will fund current and future small dollar SBA loans currently earning Prime plus 4.75%. Although time deposit balances increased in the third quarter, $71 million of time deposits are maturing in the fourth quarter of 2023, the majority of which are not expected to renew.

Net interest margin including discontinued operations decreased to 3.36% was 3.42% for the third first quarter of 2023, 2024, which represented a decrease of 128 75 basis points from 4.63% 4.17% for the third first quarter of 2022.

Net interest income from continuing operations was $27.6 million for the nine months ended September 30, 2023, an increase of $6.1 million or 28.6% from $21.4 million for the nine months ended September 30, 2022. The increase was mainly due to an increase in loan interest income, including fees, of $20.7 million, partially offset by an increase in deposit interest expense of $16.9 million.

Net interest margin including discontinued operations decreased slightly to 3.89% for the nine months ended September 30, 2023, compared to 3.90% for the nine months ended September 30, 2022.2023.

Average Balance Sheet and Analysis of Net Interest Income

The following table sets forth, for the periods indicated, information regarding: (i) the total dollar amount of interest and dividend income of BayFirst from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities. Loans in nonaccrual status, for the purposes of the following computations, are included in the average loan balances. FRB,
FHLB, and FNBB restricted equity holdings are included in other interest-earning assets. The Company did not have a significant amount of tax-exempt assets.

	Three Months Ended September 30,					
	2023			2022		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield**	**Average Balance**	**Interest**	**Yield**
Interest-earning assets:						
Investment securities	$ 43,383	$ 465	4.25 %	$ 50,196	$ 316	2.50 %
Loans, excluding PPP (1) (2)	841,920	15,992	7.54	723,284	11,371	6.24
PPP loans	15,418	40	1.03	28,102	141	1.99
Other	91,749	1,123	4.86	57,583	318	2.19
Total interest-earning assets	992,470	17,620	7.04	859,165	12,146	5.61
Noninterest-earning assets	96,047			80,682		
Total assets	$ 1,088,517			$ 939,847		
Interest-bearing liabilities:						
NOW, MMDA and savings	$ 633,657	$ 6,390	4.00	$ 587,331	$ 1,290	0.87
Time deposits	235,100	2,665	4.50	97,693	566	2.30
Other borrowings	15,714	172	4.34	44,929	258	2.28
Total interest-bearing liabilities	884,471	9,227	4.14	729,953	2,114	1.15
Demand deposits	100,734			106,846		
Noninterest-bearing liabilities	12,600			10,429		
Shareholders' equity	90,712			92,619		
Total liabilities and shareholders' equity	$ 1,088,517			$ 939,847		
Net interest income		$ 8,393			$ 10,032	
Interest rate spread			2.90			4.46
Net interest margin (3)			3.36			4.63
Ratio of average interest-earning assets to average interest-bearing liabilities	112.21 %			117.70 %		

(1) Includes nonaccrual loans.

(2) Includes no residential loans held for sale from discontinued operations as of September 30, 2023 and $59,568 at an average yield of 5.74% of residential loans held for sale from discontinued operations as of September 30, 2022.

(3) Net interest margin represents net interest income divided by average total interest-earning assets.

	For the Nine Months Ended September 30,					
	2023			2022		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield**	**Average Balance**	**Interest**	**Yield**
Interest-earning assets:						
Investment securities	$ 44,888	$ 1,398	4.16 %	$ 42,474	$ 642	2.02 %

	Three Months Ended March 31,					
	2024			2023		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield**	**Average Balance**	**Interest**	**Yield**
Interest-earning assets:						
Investment securities						
Investment securities						
Investment securities	$ 42,897	$ $432	4.05 4.05 %	$ 46,609	$ $ 474	4.12 4.12 %

Loans, excluding PPP (1) (2)	Loans, excluding PPP (1) (2)	805,049	45,346	7.53	654,604	26,398	5.39
PPP loans	PPP loans	17,337	130	1.00	40,566	880	2.90
Other	Other	80,522	2,790	4.63	82,239	592	0.96
Total interest-earning assets	Total interest-earning assets	947,796	49,664	7.01	819,883	28,512	4.65
Noninterest-earning assets	Noninterest-earning assets	93,335			77,705		
Total assets	Total assets	$1,041,131			$897,588		
Total assets							
Total assets							
Interest-bearing liabilities:							
Interest-bearing liabilities:							
Interest-bearing liabilities:	Interest-bearing liabilities:						
NOW, MMDA and savings	NOW, MMDA and savings	$ 620,237	$15,598	3.36	$613,613	$ 3,350	0.73
NOW, MMDA and savings							
NOW, MMDA and savings							
Time deposits	Time deposits	186,827	5,478	3.92	54,714	783	1.91
PPPLF advances		—	—	—	7,577	20	0.35
Other borrowings							
Other borrowings							
Other borrowings	Other borrowings	30,325	1,033	4.55	22,177	467	2.82
Total interest-bearing liabilities	Total interest-bearing liabilities	837,389	22,109	3.53	698,081	4,620	0.88
Demand deposits	Demand deposits	101,661			99,234		
Noninterest-bearing liabilities	Noninterest-bearing liabilities	12,383			7,260		
Noninterest-bearing liabilities							
Noninterest-bearing liabilities							
Shareholders' equity							
Shareholders' equity							
Shareholders' equity	Shareholders' equity	89,698			93,013		
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	$1,041,131			$897,588		
Total liabilities and shareholders' equity							
Total liabilities and shareholders' equity							
Net interest income	Net interest income		$27,555			$23,892	
Net interest income							
Net interest income							
Interest rate spread							
Interest rate spread							
Interest rate spread	Interest rate spread			3.48			3.77

Net interest margin (3)	Net interest margin (3)		3.89	3.90
Ratio of average interest-earning assets to average interest-bearing liabilities	Ratio of average interest-earning assets to average interest-bearing liabilities	113.18 %	117.45 %	

(2) Includes $56 at an average yield of 2.02% and $72,172 at an average yield of 4.57% of residential loans held for sale from discontinued operations as of September 30, 2023 and September 30, 2022, respectively.

(1) Includes nonaccrual loans.

(1) Includes nonaccrual loans.

(1) Includes nonaccrual loans.

(2) Includes no residential loans held for sale from discontinued operations as of March 31, 2024 and $315 at an average yield of 1.09% of residential loans held for sale from discontinued operations as of March 31, 2023.

(2) Includes no residential loans held for sale from discontinued operations as of March 31, 2024 and $315 at an average yield of 1.09% of residential loans held for sale from discontinued operations as of March 31, 2023.

(3) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The table below presents the effects of volume and rate changes on interest income and expense for the periods indicated. Changes in volume are changes in the average balance multiplied by the previous period’s average rate. Changes in rate are changes in the average rate multiplied by the average balance from the previous period. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate. Loans in nonaccrual status, for the purpose of the following computations, are included in the average loan balances. FRB, FHLB, and FNBB restricted equity holdings are included in other interest-earning assets. The Company did not have a significant amount of tax-exempt assets.

(Dollars in thousands)	Rate	Volume	Total
Three Months Ended September 30, 2023 vs. September 30, 2022:			
Interest-earning assets:			
Investment securities	$ 197	$ (48)	$ 149
Loans, excluding PPP	2,585	2,036	4,621
PPP loans	(52)	(49)	(101)
Other interest-earning assets	541	264	805
Total interest-earning assets	3,271	2,203	5,474
Interest-bearing liabilities:			

NOW, MMDA and savings	4,990	110	5,100
Time deposits	850	1,249	2,099
Other borrowings	145	(231)	(86)
Total interest-bearing liabilities	5,985	1,128	7,113
Net change in net interest income	$ (2,714)	$ 1,075	$ (1,639)

(Dollars in thousands)	Rate	Volume	Total
Nine Months Ended September 30, 2023 vs. September 30, 2022:			
Three Months Ended March 31, 2024 vs. March 31, 2023:			
Interest-earning assets:			
Interest-earning assets:			
Interest-earning assets:			
Investment securities	$ 718	$ 38	$ 756
Loans, excluding PPP(1)	11,998	6,950	18,948
Investment securities			
Investment securities			
Loans, excluding PPP			
PPP loans	(400)	(350)	(750)
Other interest-earning assets	2,211	(13)	2,198
Total interest-earning assets	14,527	6,625	21,152
Interest-bearing liabilities:			
NOW, MMDA, and savings	12,211	37	12,248
NOW, MMDA and savings			
NOW, MMDA and savings			
NOW, MMDA and savings			
Time deposits	1,422	3,273	4,695
PPPLF advances	—	(20)	(20)
Other borrowings			
Other borrowings			
Other borrowings	355	211	566
Total interest-bearing liabilities	13,988	3,501	17,489
Net change in net interest income	$ 539	$3,124	$3,663

(1) Includes $1 and $2,466 of interest income on residential loans held for sale from discontinued operations as of September 30, 2023 and September 30, 2022, respectively.

Provision for Credit Losses

The provision for credit losses is charged to operations to adjust the total allowance to a level deemed appropriate by management and is based upon the volume and type of lending the Bank conducts, industry standards, the amount of nonperforming loans, general economic conditions, particularly as they relate to its market area, economic forecasts, and other factors that may affect the ability to collect on the loans in its portfolio.

The Company recorded a provision for credit losses on loans in for the three months ended September 30, 2023 March 31, 2024 of $3.0 million $4.1 million primarily due to net charge-offs and net loan growth. This compared to a provision of $0.8 million under the incurred loss methodology $1.9 million for the three months ended September 30, 2022 March 31, 2023. During the three months ended September 30, 2023 March 31, 2024, $2.2 million $3.7 million of net charge offs in loans were recorded compared to $0.6 million $1.9 million during the three months ended September 30, 2022.

The Company recorded a provision for credit losses for the nine months ended September 30, 2023 of $7.7 million compared to a $1.4 million negative provision under the incurred loss methodology for the nine months ended September 30, 2022. The increase of $9.1 million in the provision for credit losses expense was primarily due to loan growth, higher charge-offs, and the Company having reduced its ALLL under the incurred loss methodology in 2022 from the historic high levels reached in 2020 at the onset of the COVID-19 pandemic. During the nine months ended

September 30, 2023, net loan charge offs totaled $6.4 million compared to $2.3 million during the nine months ended September 30, 2022 March 31, 2023. Net charge-offs for the first three quarters quarter of 2023 2024 were elevated by $1.9 million due to higher net charge-offs from the performance Bank's FlashCap, our small SBA loan program for balances over $150 thousand and under $350 thousand, which the Bank ended during the quarter, as well as $0.8 million of net charge-offs from a purchased portfolio of unsecured consumer loans. This portfolio currently has $0.9 million of loans 30-89 days past due and $0.4 million of loans 90+ days past due. The Company stopped purchasing these consumer loans at the end of 2022 and the portfolio balances have decreased from $29.4 million $17.0 million to $19.6 million since $14.3 million during the beginning of 2023. quarter.

The ACL was $13.4 million at September 30, 2023 and $9.7 million using the incurred losses methodology at September 30, 2022.

Noninterest Income

The following table presents noninterest income from continuing operations for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023.

		For the Three Months Ended September 30,		For the Nine Months Ended September 30,				
		For the Three Months Ended March 31, For the Three Months Ended March 31, For the Three Months Ended March 31,						
(Dollars in thousands)	*(Dollars in thousands)*	2023	2022	2023	2022	*(Dollars in thousands)*	2024	2023
Noninterest income:	Noninterest income:							
Loan servicing income, net								
Loan servicing income, net								
Loan servicing income, net	Loan servicing income, net	$ 760	$ 620	$ 2,149	$ 1,508			
Gain on sale of government guaranteed loans, net	Gain on sale of government guaranteed loans, net	7,139	7,446	17,576	15,915			
Service charges and fees	Service charges and fees	408	347	1,166	951			

Government guaranteed loan fair value gain	Government guaranteed loan fair value gain	4,543	999	11,021	3,510
Government guaranteed loan packaging fees	Government guaranteed loan packaging fees	1,158	208	2,076	496
Other noninterest income	Other noninterest income	671	184	1,076	766
Total noninterest income	Total noninterest income	$14,679	$9,804	$35,064	$23,146

Noninterest income from continuing operations was $14.7 million $14.3 million during the three months ended September 30, 2023 March 31, 2024, an increase of $4.9 million $4.8 million or 49.7%, from $9.8 million 51.0% during the three months ended September 30, 2022 March 31, 2023. The increase was the result of increases

in fair value gains related to held for investment gain on sale of government guaranteed loans of $3.5 million $3.7 million and higher government guaranteed loan packaging fees of $1.0 million $1.3 million.

Noninterest income from continuing operations was $35.1 million for the nine months ended September 30, 2023, an increase of $11.9 million or 51.5% from $23.1 million for the nine months ended September 30, 2022. The increase was primarily due to higher gains on the sale of government guaranteed loans of $1.7 million, a $7.5 million increase in fair value gains related to held for investment government guaranteed loans, and an increase in government guaranteed loan packaging fees of $1.6 million. The increase in fair value gains related to held for investment government guaranteed loans was primarily related to an increase in the volume of loans held at fair value. As of September 30, 2023, the Company had $84.2 million compared to $25.0 million at September 30, 2022.

Noninterest Expense

The following table presents noninterest expense from continuing operations for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023.

		For the Three Months Ended September 30,		**For the Nine Months Ended September 30,**				
		For the Three Months Ended March 31,						
		For the Three Months Ended March 31,						
		For the Three Months Ended March 31,						
(Dollars in thousands)	*(Dollars in thousands)*	**2023**	**2022**	**2023**	**2022**	*(Dollars in thousands)*	**2024**	**2023**
Noninterest expense:	Noninterest expense:							
Salaries and benefits	Salaries and benefits	$ 7,912	$ 6,758	$23,527	$21,177			
Salaries and benefits								
Salaries and benefits								
Bonus, commissions, and incentives	Bonus, commissions, and incentives	1,406	883	3,515	1,833			
Occupancy and equipment								
Occupancy and equipment								
Occupancy and equipment	Occupancy and equipment	1,262	1,070	3,608	3,010			
Data processing	Data processing	1,526	1,247	4,189	3,486			

Marketing and business development	Marketing and business development	929	662	2,696	2,100
Professional services	Professional services	816	956	2,587	3,089
Loan origination and collection	Loan origination and collection	1,981	1,068	4,697	2,486
Employee recruiting and development	Employee recruiting and development	543	518	1,667	1,653
Regulatory assessments	Regulatory assessments	284	110	615	299
Director compensation	Director compensation	147	177	438	514
Director compensation					
Director compensation					
Liability and fidelity bond insurance	Liability and fidelity bond insurance	148	119	403	349
ATM and interchange	ATM and interchange	154	133	359	293
Telecommunication	Telecommunication	90	99	275	273
Other noninterest expense	Other noninterest expense	229	358	665	1,157
Total noninterest expense	Total noninterest expense	$17,427	$14,158	$49,241	$41,719

Noninterest expense from continuing operations was $17.4 million $17.8 million during the three months ended September 30, 2023 March 31, 2024, an increase of $3.3 million $2.4 million or 23.1% from $14.2 million 15.3% during the three months ended September 30, 2022 March 31, 2023. The increase was primarily due to higher compensation costs of $1.7 million $0.9 million, higher professional fees of $0.5 million, higher loan production expenses of $0.2 million, and higher loan origination expense data processing expenses of $0.9 million $0.2 million.

Noninterest expense was $49.2 million during the nine months ended September 30, 2023, an increase of $7.5 million or 18.0% from $41.7 million for the nine months ended September 30, 2022. The increase was primarily the result of higher compensation costs and loan origination and collection expense.

Discontinued Operations

Net loss on discontinued operations was $47 thousand in the three months ended September 30, 2023, which was a $4.4 million favorable change from a net loss of $4.5 million in the three months ended September 30, 2022. The loss in the third quarter of 2023 was partially due to lagging facilities costs as we seek to sublease vacant space. The $4.4 million decrease in the net loss from the year-ago quarter was primarily due to a decrease in noninterest expense of $13.9 million, partially offset by decreases in residential loan fee income of $7.1 million, interest income of $0.9 million, and income tax benefit of $1.5 million. In the third quarter of 2022, the Company recognized $3.7 million of restructuring charges from the discontinuation of the residential mortgage operations which was recorded to noninterest expense.

Net loss from discontinued operations was $207 thousand for the nine months ended September 30, 2023, which was a $4.8 million reduction from a net loss of $5.0 million for the nine months ended September 30, 2022. The majority of the discontinued loss in 2022 was recorded in the third quarter of 2022. As such, the net loss from discontinued operations for the first nine months of 2022 included restructuring charges of $4.3 million and the discontinued loss in the first nine months of 2023 represented a modest amount of trailing expenses from the discontinuation.

Income Taxes

Income tax expense from continuing operations was $674 $296 thousand for the three months ended September 30, 2023 March 31, 2024, a decrease an increase of $309 $16 thousand from income tax expense of $983 $280 thousand for the three months ended September 30, 2022. The decrease was primarily due to the decrease in pre-tax earnings from continuing operations. Income tax benefit from discontinued operations was $15 thousand for the three months ended September 30, 2023, compared to income tax benefit of $1.5 million for the three months ended September 30, 2022. The change was primarily due to the decrease in pre-tax loss from discontinued operations.

Income tax expense from continuing operations was $1.4 million for the nine months ended September 30, 2023, an increase of $0.5 million from income tax expense of $0.9 million for the nine months ended September 30, 2022 March 31, 2023. The increase was primarily due to the increase in pre-tax earnings from continuing operations. Income tax benefit from discontinued operations was $68 $19 thousand for the nine three months ended September 30, 2023 March 31, 2024, a change of $1.6 million from compared to income tax benefit of $1.7 million $42 thousand for the nine three months ended September 30, 2022 March 31, 2023. The change was primarily due to the decrease in pre-tax loss from discontinued operations.

At September 30, 2023, the Company had $2.7 million of federal net operating loss carryforward and $0.4 million of state net operating loss carryforward. The net operating loss carryforwards do not expire. At September 30, 2022, the Company had $2.4 million of federal net operating loss carryforward and $0.4 million of state net operating loss carryforward.

The effective income tax rate was 24.97% for the nine months ended September 30, 2023 and 31.88% for the nine months ended September 30, 2022.

Financial Condition

Investment Securities

The following table presents the fair value of the Company's investment securities portfolio classified as available for sale as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

(Dollars in thousands)	*(Dollars in thousands)*	**September 30, 2023**	**December 31, 2022**	*(Dollars in thousands)*	**March 31, 2024**	**December 31, 2023**
Investment securities available for sale:	Investment securities available for sale:					
Asset-backed securities	Asset-backed securities	$ 8,527	$ 9,605			
Asset-backed securities						
Asset-backed securities						
Mortgage-backed securities:	Mortgage-backed securities:					
U.S. Government-sponsored enterprises						
U.S. Government-sponsored enterprises						
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	3,102	3,440			
Collateralized mortgage obligations:	Collateralized mortgage obligations:					
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	16,719	18,220			
U.S. Government-sponsored enterprises						
U.S. Government-sponsored enterprises						
Corporate bonds	Corporate bonds	11,335	11,084			
Total investment securities available for sale	Total investment securities available for sale	$ 39,683	$ 42,349			

The net unrealized loss on the investment securities AFS at September 30, 2023 March 31, 2024, was $4.9 million $4.4 million compared with a net unrealized loss on investment securities AFS of $5.0 million $4.0 million at December 31, 2022 December 31, 2023. The change in unrealized loss on investment securities AFS from December 31, 2022 December 31, 2023 to September 30, 2023 March 31, 2024 was primarily due to the change in the interest rate environment.

The following table presents the amortized cost of the Company's investment securities portfolio classified as held to maturity as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

(Dollars in thousands)	*(Dollars in thousands)*	**September 30, 2023**	**December 31, 2022**	*(Dollars in thousands)*	**March 31, 2024**	**December 31, 2023**
Investment securities held to maturity:	Investment securities held to maturity:					

Mortgage-backed securities:	Mortgage-backed securities:		
Mortgage-backed securities:			
Mortgage-backed securities:			
U.S. Government-sponsored enterprises			
U.S. Government-sponsored enterprises			
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	$ 1	$ 2
Corporate bonds	Corporate bonds	2,500	5,000
Corporate bonds			
Corporate bonds			
Total investment securities held to maturity	Total investment securities held to maturity	$ 2,501	$ 5,002

There was a $19 $14 thousand ACL on the corporate bonds HTM as of September 30, 2023 March 31, 2024 and no a $17 thousand ACL on the corporate bonds HTM as of December 31, 2022 December 31, 2023. The net unrealized loss on the investment securities HTM at September 30, 2023 March 31, 2024, was $219 $149 thousand compared with a net unrealized loss on investment securities HTM of $247 $238 thousand at December 31, 2022 December 31, 2023.

No investment securities were pledged as of September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023, and there were no sales of investment securities during the three and nine months ended September 30, 2023 March 31, 2024 or three and nine months ended September 30, 2022 March 31, 2023.

The investment securities available for sale presented in the following tables are reported at amortized cost and by contractual maturity as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. Actual timing may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Additionally, residential mortgage-backed securities and collateralized mortgage obligations receive monthly principal payments, which are not reflected below.

		September 30, 2023							
		One year or less		One to five years		Five to ten years		After ten years	
		March 31, 2024							
		One year or less							
(Dollars in thousands)	*(Dollars in thousands)*	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
Asset-backed securities	Asset-backed securities	$ —	— %	$ —	— %	$ —	— %	$ 8,597	6.37 %
Mortgage-backed securities:	Mortgage-backed securities:								
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	—	—	—	—	—	—	3,909	1.56
U.S. Government-sponsored enterprises									

	One year or less		One to five years		
(Dollars in thousands)	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amorti Cos
Asset-backed securities	$ —	— %	$ —	— %	$

U.S. Government-sponsored enterprises																	
Collateralized mortgage obligations:	Collateralized mortgage obligations:																
U.S. Government-sponsored enterprises																	
U.S. Government-sponsored enterprises																	
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	—	—	—	—	—	—	20,730	1.84								
Corporate bonds	Corporate bonds	—	—	11,333	6.37	—	—	—	—								
Total investment securities available for sale	Total investment securities available for sale	$ —	— %	$ 11,333	6.37 %	$ —	— %	$ 33,236	2.98 %	Total investment securities available for sale	$ —	—	— %	$ 11,330	6.38	6.38 %	$

		December 31, 2022															
		One year or less		One to five years		Five to ten years		After ten years									
	December 31, 2023																
	One year or less										One year or less			One to five years			
(Dollars in thousands)	(Dollars in thousands)	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	(Dollars in thousands)	Amortized Cost		Average Yield	Amortized Cost		Average Yield	Amorti Cos
Asset-backed securities	Asset-backed securities	$ —	— %	$ —	— %	$ —	— %	$ 9,873	5.40 %	Asset-backed securities	$ —	—	— %	$ —	—	— %	$
Mortgage-backed securities:	Mortgage-backed securities:																
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	—	—	—	—	—	—	4,133	1.55								
U.S. Government-sponsored enterprises																	
U.S. Government-sponsored enterprises																	
Collateralized mortgage obligations:	Collateralized mortgage obligations:																
U.S. Government-sponsored enterprises																	
U.S. Government-sponsored enterprises																	
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	—	—	—	—	—	—	22,031	1.89								
Corporate bonds	Corporate bonds	—	—	9,981	3.70	1,356	4.34	—	—								
Total investment securities available for sale	Total investment securities available for sale	$ —	— %	$ 9,981	3.70 %	$ 1,356	4.34 %	$ 36,037	2.81 %	Total investment securities available for sale	$ —	—	— %	$ 11,332	6.23	6.23 %	$

The investment securities held to maturity presented in the following tables are reported at amortized cost and by contractual maturity as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. Actual timing may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Additionally, residential mortgage-backed securities receive monthly principal payments, which are not reflected below.

	March 31, 2024							
	One year or less		One to five years		Five to ten years		After ten years	
(Dollars in thousands)	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
Mortgage-backed securities:								
U.S. Government-sponsored enterprises	$ —	— %	$ —	— %	$ —	— %	$ 1	4.23 %
Corporate bonds	—	—	1,500	4.38	1,000	4.38	—	—
Total investment securities held to maturity	$ —	— %	$ 1,500	4.38 %	$ 1,000	4.38 %	$ 1	4.23 %

	September 30, 2023							
	One year or less		One to five years		Five to ten years		After ten years	
(Dollars in thousands)	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
Mortgage-backed securities:								
U.S. Government-sponsored enterprises	$ —	— %	$ —	— %	$ —	— %	$ 1	2.45 %
Corporate bonds	—	—	1,500	4.38	1,000	4.38	—	—
Total investment securities held to maturity	$ —	— %	$ 1,500	4.38 %	$ 1,000	4.38 %	$ 1	2.45 %

	December 31, 2022							
	One year or less		One to five years		Five to ten years		After ten years	
(Dollars in thousands)	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
Mortgage-backed securities:								
U.S. Government-sponsored enterprises	$ —	— %	$ —	— %	$ —	— %	$ 2	2.65 %
Corporate bonds	—	—	4,000	5.79	1,000	4.38	—	—
Total investment securities held to maturity	$ —	— %	$ 4,000	5.79 %	$ 1,000	4.38 %	$ 2	2.65 %

	December 31, 2023						
	One year or less			One to five years			
(Dollars in thousands)	Amortized Cost		Average Yield	Amortized Cost		Average Yield	Am
Mortgage-backed securities:							
Mortgage-backed securities:							
U.S. Government-sponsored enterprises							
U.S. Government-sponsored enterprises							
U.S. Government-sponsored enterprises	$ —	—	— %	$—	—	— %	$
Corporate bonds							
Corporate bonds							
Total investment securities held to maturity	$ —	—	— %	$ 1,500	4.38	4.38 %	

Loan Portfolio Composition

The Company offers a variety of products designed to meet the credit needs of our borrowers. Our lending activities primarily consist of government guaranteed loans, real estate loans, commercial business loans, residential mortgage, and consumer loans. Senior management and loan officers have continued to develop new sources of loan referrals, particularly among centers of local influence and real estate professionals, and have also enjoyed repeat business from loyal customers in the markets the Bank serves. The Bank has no concentration of credit in any industry that represents 10% or more of its loan portfolio. Additionally, the loan portfolio is well-diversified across major loan types with a low concentration of non owner-occupied commercial real estate loans which makes up 6% of the total portfolio. The following table sets forth the composition of its loan portfolio, including LHFS as of the dates indicated.

		September 30, 2023		December 31, 2022							
	March 31, 2024							March 31, 2024			December 31, 2023
(Dollars in thousands)	*(Dollars in thousands)*	Amount	% of Total	Amount	% of Total	*(Dollars in thousands)*	Amount	% of Total	Amount		% of Total
Residential loans held for sale from discontinued operations		$ —		$ 449							
Government guaranteed loans, held for sale	Government guaranteed loans, held for sale	$ 1,855		$ —							
Government guaranteed loans held for investment, at fair value		$ 84,178		$ 27,078							
Loans held for investment, at amortized cost:											
Loans HFI:											
Loans HFI:											
Loans HFI:											
Government guaranteed loans HFI, at fair value											
Government guaranteed loans HFI, at fair value											
Government guaranteed loans HFI, at fair value											
Loans HFI, at amortized cost:											
Loans HFI, at amortized cost:											
Loans HFI, at amortized cost:											
Residential real estate											
Residential real estate											
Residential real estate	Residential real estate	$248,973	31.8 %	$202,329	29.1 %	285,214	33.8	33.8 %	264,126	32.5	32.5 %
Commercial real estate	Commercial real estate	280,620	35.8	231,281	33.3						
Construction and land	Construction and land	25,339	3.2	9,320	1.3						
Commercial and industrial	Commercial and industrial	174,238	22.2	194,643	28.0						
Commercial and industrial – PPP	Commercial and industrial – PPP	15,364	2.0	19,293	2.8						
Consumer and other	Consumer and other	39,024	5.0	37,288	5.5						
Loans held for investment, at amortized cost, gross		783,558	100.0 %	694,154	100.0 %						

Loans HFI, at amortized cost, gross	Loans HFI, at amortized cost, gross	844,288	100.0 %	812,048	100.0 %

Discount on government guaranteed loans sold	Discount on government guaranteed loans sold	(6,623)	(5,621)
Premium on loans purchased, net	Premium on loans purchased, net	4,406	2,301

Premium on loans purchased, net

Premium on loans purchased, net

Deferred loan costs, net	Deferred loan costs, net	12,928	10,740
Allowance for credit losses(1)		(13,365)	(9,046)
Loans held for investment, at amortized cost, net		$780,904	$692,528

(1) Prior to January 1, 2023, the incurred loss methodology was used to estimate credit losses. Beginning with that date, credit losses are estimated using the CECL methodology.

Deferred loan costs, net

Deferred loan costs, net

Allowance for credit losses

Allowance for credit losses

Allowance for credit losses

Loans HFI, at amortized cost, net

Loans HFI, at amortized cost, net

Loans HFI, at amortized cost, net

Total loans HFI, net

Total loans HFI, net

Total loans HFI, net

During the nine three months ended September 30, 2023 March 31, 2024, the Bank originated approximately $159.7 million $66.6 million in loans through conventional lending channels and $402.5 million $130.6 million in loans through CreditBench (its government guaranteed lending function). In addition, the Bank sold guaranteed loan balances of $316.3 million and unguaranteed balances of $10.9 million of government guaranteed loans. The Bank purchased $106.4 million of government guaranteed loans. Of the loans purchased during the year, $58.2 million have already been sold or paid off. $127.8 million.

During the nine months ended September 30, 2022, the Bank originated approximately $206.8 million in loans through conventional lending channels, $276.9 million through CreditBench, and $886.6 million through the Residential Mortgage Lending Division, which is a discontinued operation. Additionally, the Bank sold guaranteed balances of $233.1 million and unguaranteed balances of $13.8 million of government guaranteed loans. The Bank purchased $16.6 million of government guaranteed loans and $34.1 million of unsecured consumer loans.

Loan Maturity/Rate Sensitivity

The following table shows the contractual maturities of our loans at September 30, 2023 March 31, 2024. Loan balances in this table include loans held for investment HFI at fair value, loans held for investment HFI at amortized cost, discount on retained balances of loans sold, premium and discount on loans purchased, and deferred loan costs, net.

(Dollars in thousands)	*(Dollars in thousands)*	**Due in One Year or Less**	**Due After One Year to Five Years**	**Due After Five Years to 15 Years**	**Due After 15 Years**	**Total**	*(Dollars in thousands)*	**Due in One Year or Less**	**Due After One Year to Five Years**	**Due After Five Years to 15 Years**	**Due After 15 Years**
Real estate:	Real estate:										

Residential						
Residential						
Residential	Residential	$ 1,914	$ 1,465	$ 14,727	$231,342	$249,448
Commercial	Commercial	14,186	1,407	40,447	257,228	313,268
Construction and land	Construction and land	5,561	2,797	86	16,894	25,338
Commercial and industrial	Commercial and industrial	7,992	23,398	195,175	7,941	234,506
Commercial and industrial - PPP	Commercial and industrial - PPP	810	14,433	—	—	15,243
Consumer and other	Consumer and other	1,763	30,025	7,939	917	40,644
Total loans held for investment		$ 32,226	$ 73,525	$ 258,374	$514,322	$878,447
Total loans HFI						

The following table shows the loans with contractual maturities of greater than one year that have fixed or adjustable interest rates at September 30, 2023 March 31, 2024.

(Dollars in thousands)	*(Dollars in thousands)*	Fixed Interest Rate	Adjustable Interest Rate	*(Dollars in thousands)*	Fixed Interest Rate	Adjustable Interest Rate
Real estate:	Real estate:					
Residential						
Residential						
Residential	Residential	$ 59,504	$ 188,030			
Commercial	Commercial	12,530	286,552			
Construction and land	Construction and land	—	19,777			
Commercial and industrial	Commercial and industrial	9,981	216,533			
Commercial and industrial - PPP	Commercial and industrial - PPP	14,433	—			
Consumer and other	Consumer and other	17,275	21,606			
Total loans held for investment		$ 113,723	$ 732,498			
Total loans HFI						

Credit Risk

The Bank's primary business is making commercial, consumer, and real estate loans. This activity inevitably has risks for potential credit losses, the magnitude of which depends on a variety of economic factors affecting borrowers, which are beyond its control. The Bank has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about the economic environment that it believes impacts credit quality as of the balance sheet date that it believes to be reasonable, but which may or may not prove accurate. Thus, there can be no assurance that charge-offs in future periods will not exceed the ACL, or that additional increases in the ACL will not be required.

Allowance for Credit Losses. In accordance with changes in generally accepted accounting principles, the Company adopted the new credit loss accounting standard known as CECL on January 1, 2023. At the time of adoption, the ACL for loans increased by $3.1 million to 1.73% 2.37% of loans, the reserve on unfunded commitments increased $213 thousand, and an $18 thousand reserve was established for held to maturity investment securities.These one-time increases resulted in an after tax decrease to capital of $2.5 million, with no impact to earnings. Under CECL, the ACL is based on projected expected credit losses rather than on incurred losses.

The Bank must maintain an adequate ACL based on a comprehensive methodology that assesses the probable losses inherent in its loan portfolio. The Bank maintains an ACL based on a number of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans, asset classifications, loan grades, change in volume and mix of loans, collateral value, historical loss experience, size and complexity of individual credits, and economic conditions. In addition to this, the Company uses reasonable and supportable forecasts utilizing data from the Federal Open Market Committee's FOMC's median forecasts of change

in national GDP and of national unemployment. Provisions for credit losses are provided on both a specific and general basis. Specific allowances are provided for individual loans that do not share similar risk characteristics with instruments evaluated using a collective (pooled) basis. General valuation allowances are determined by loan pools with a further evaluation of various quantitative and qualitative factors noted above.

The Bank periodically reviews the assumptions and formulates methodologies by which changes are made to the specific and general valuation ACL in an effort to refine such allowances in light of the current status of the factors described above.

All nonaccrual loans and modifications to loans for borrowers experiencing financial difficulty are reviewed to determine if the loans share the same risk characteristics as the pooled loans. If the loan does not share the same risk characteristics, the loan is evaluated individually for credit losses. Specific allocation of reserves for individually evaluated loans considers the value of the collateral, the financial condition of the borrower, and industry and current economic trends. The Bank reviews the collateral value, cash flow, and tertiary other support on each individually evaluated credit. Any deficiency outlined by a real estate collateral evaluation analysis, or cash flow shortfall, is accounted for through a specific allocation for the loan.

Prior to January 1, 2023, the incurred loss methodology was used to estimate credit losses. Beginning with that date, the credit losses are estimated using the CECL methodology.

Nonperforming Assets. At September 30, 2023 March 31, 2024, the Company had $8.8 million $8.7 million in nonperforming assets, excluding government guaranteed loan balances, and the ACL represented 1.62% of total loans HFI at amortized cost. At March 31, 2023, the Company had $2.1 million in nonperforming assets, excluding government guaranteed loan balances, and their ACL represented 1.68% 1.69% of total loans held for investment at amortized

cost. At September 30, 2022, the Company had $4.1 million in nonperforming assets, excluding government guaranteed loan balances, and their ALLL represented 1.48% of total loans held for investment HFI at amortized cost. Total loans held for investment HFI at September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 included government guaranteed loans and loans measured at fair value, which had no reserves allocated to them. ACL as a percentage of loans held for investment HFI at amortized cost, not including government guaranteed loan balances, was 2.03% under CECL 1.88% at September 30, 2023 March 31, 2024, compared to 1.90% under the incurred loss method 2.10% at September 30, 2022 March 31, 2023.

The following table sets forth certain information on nonaccrual loans, loans 90 days or more past due, and foreclosed assets, the ratio of such loans and foreclosed assets to total assets as of the dates indicated, and certain other related information.

(Dollars in thousands)	September 30, 2023	September 30, 2022
Nonperforming loans (government guaranteed balances)	$ 1,617	$ 6,252
Nonperforming loans (unguaranteed balances)	8,776	4,015
Total nonperforming loans	10,393	10,267
OREO	—	56
Total nonperforming assets	$ 10,393	$ 10,323
Nonperforming loans as a percentage of total loans held for investment	1.18 %	1.51 %
Nonperforming loans (excluding government guaranteed balances) to total loans held for investment	1.00 %	0.59 %
Nonperforming assets as a percentage of total assets	0.92 %	1.11 %
Nonperforming assets (excluding government guaranteed balances) to total assets	0.77 %	0.44 %
ACL to nonperforming loans	128.60 %	94.86 %
ACL to nonperforming loans (excluding government guaranteed balances)	152.29 %	242.57 %

(Dollars in thousands)	March 31, 2024	March 31, 2023	December 31, 2023
Nonperforming loans (government guaranteed balances), at amortized cost, gross	$ 2,309	$ 3,795	$ 1,424
Nonperforming loans (unguaranteed balances), at amortized cost, gross	7,568	2,095	8,264
Total nonperforming loans, at amortized cost, gross	9,877	5,890	9,688
Nonperforming loans (government guaranteed balances), at fair value	94	—	—
Nonperforming loans (unguaranteed balances), at fair value	729	—	648
Total nonperforming loans, at fair value	823	—	648
OREO	404	3	—
Total nonperforming assets, gross	$ 11,104	$ 5,893	$ 10,336
Nonperforming loans as a percentage of total loans HFI(1)	1.15 %	0.81 %	1.18 %
Nonperforming loans (excluding government guaranteed balances) to total loans HFI(1)	0.88 %	0.29 %	1.00 %
Nonperforming assets as a percentage of total assets	0.97 %	0.55 %	0.92 %
Nonperforming assets (excluding government guaranteed balances) to total assets	0.70 %	0.20 %	0.74 %
ACL to nonperforming loans(1)	140.79 %	207.27 %	139.32 %

ACL to nonperforming loans (excluding government guaranteed balances)(1)	183.75 %	582.72 %	163.32 %

(1) Excludes loans measured at fair value

The following table sets forth information with respect to activity in the ACL for loans for the periods shown:

(Dollars in thousands)	*(Dollars in thousands)*	**At and for the Three Months Ended September 30,**		**At and for the Nine Months Ended September 30,**		
		2023	**2022**	**2023**	**2022**	
(Dollars in thousands)						
(Dollars in thousands)						**At and for the Three Months Ended March 31,**
	2024					**2024 2023**
Allowance at beginning of period	Allowance at beginning of period	$ 12,598	$ 9,564	$ 9,046	$ 13,452	
Impact of adopting ASC 326	Impact of adopting ASC 326	—	—	3,107	—	
Charge-offs:	Charge-offs:					
Commercial real estate		(108)	36	(108)	(17)	
Commercial and industrial	Commercial and industrial	(1,542)	(697)	(4,660)	(2,667)	
Commercial and industrial						
Commercial and industrial						
Consumer and other						
Consumer and other						
Consumer and other	Consumer and other	(874)	(68)	(2,214)	(109)	
Total charge-offs	Total charge-offs	(2,524)	(729)	(6,982)	(2,793)	
Recoveries:	Recoveries:					
Commercial real estate						
Commercial real estate						
Commercial real estate	Commercial real estate	75	13	77	74	
Commercial and industrial	Commercial and industrial	114	105	303	365	
Consumer and other	Consumer and other	93	36	219	41	
Total recoveries	Total recoveries	290	154	607	480	
Net charge-offs	Net charge-offs	(2,234)	(575)	(6,375)	(2,313)	
Provision for credit losses	Provision for credit losses	3,001	750	7,587	(1,400)	
Allowance at end of period	Allowance at end of period	$ 13,365	$ 9,739	$ 13,365	$ 9,739	
Net charge-offs to average loans held for investment at amortized cost (annualized)		1.13 %	0.35 %	1.11 %	0.52 %	
Allowance as a percent of total loans held for investment at amortized cost		1.68 %	1.48 %	1.68 %	1.48 %	

Allowance as a percent of loans held for investment at amortized cost, not including government guaranteed loans	2.03 %	1.90 %	2.03 %	1.90 %
Allowance as a percent of nonperforming loans	128.60 %	94.86 %	128.60 %	94.86 %
Total loans held for investment	$878,447	$680,805	$878,447	$680,805
Average loans held for investment at amortized cost	$789,167	$653,231	$764,213	$594,743
Nonperforming loans (including government guaranteed balances)	$ 10,393	$ 10,267	$ 10,393	$ 10,267
Nonperforming loans (excluding government guaranteed balances)	$ 8,776	$ 4,015	$ 8,776	$ 4,015

Net charge-offs to average loans HFI at amortized cost	1.71 %	1.05 %
Allowance as a percent of total loans HFI at amortized cost	1.62 %	1.69 %
Allowance as a percent of loans HFI at amortized cost, not including government guaranteed loans	1.88 %	2.10 %
Allowance as a percent of nonperforming loans at amortized cost, gross	140.79 %	207.27 %
Total loans HFI		
Average loans HFI at amortized cost		
Nonperforming loans (including government guaranteed balances) at amortized cost, gross		
Nonperforming loans (excluding government guaranteed balances) at amortized cost, gross		
Guaranteed balance of government guaranteed loans		

Guaranteed balance of government guaranteed loans	$191,306	$160,397	$191,306	$160,397

The following table details net charge-offs to average loans outstanding by loan category for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023.

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
(Dollars in thousands)	Net (Charge-off) Recovery	Average Loans HFI	Net (Charge-off) Recovery Ratio	Net (Charge-off) Recovery	Average Loans HFI	Net (Charge-off) Recovery Ratio

Residential real estate	$ 8	$ 228,539	0.01 %	$ —	$ 131,536	— %
Commercial real estate	(33)	326,051	(0.04)	49	276,226	0.07
Commercial and industrial	(1,428)	248,096	(2.30)	(592)	219,005	(1.08)
Commercial and industrial - PPP	—	15,418	—	—	28,102	—
Consumer and other	(781)	39,234	(7.96)	(32)	36,949	(0.35)
Total loans held for investment	$ (2,234)	$ 857,338	(1.04)%	$ (575)	$ 691,818	(0.33)%

The following table details net charge-offs to average loans outstanding by loan category for the nine months ended September 30, 2023 and September 30, 2022.

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
(Dollars in thousands)	Net (Charge-off) Recovery	Average Loans HFI	Net (Charge-off) Recovery Ratio	Net (Charge-off) Recovery	Average Loans HFI	Net (Charge-off) Recovery Ratio
Residential real estate	$ 8	$ 209,934	0.01 %	$ —	$ 102,486	— %
Commercial real estate	(31)	299,972	(0.01)	57	246,341	0.03
Commercial and industrial	(4,357)	258,043	(2.25)	(2,302)	211,950	(1.45)
Commercial and industrial - PPP	—	17,337	—	—	40,566	—
Consumer and other	(1,995)	37,044	(7.18)	(68)	21,655	(0.42)
Total loans held for investment	$ (6,375)	$ 822,330	(1.03)%	$ (2,313)	$ 622,998	(0.50)%

Asset quality remained stable in the third quarter of 2023. The Company recorded a provision for credit losses for the nine months ended September 30, 2023 of $7.7 million compared to a $1.4 million negative provision under the incurred loss methodology for the nine months ended September 30, 2022. The increase of $9.1 million in the provision for credit losses expense was primarily due to the loan growth, higher charge-offs, and the Company reduced its ALLL in 2022 from the historic high levels reached in 2020 at the onset of the pandemic.

Nonperforming assets to total assets, excluding government guaranteed loan balances, were 0.77% as of September 30, 2023, as compared to 0.44% as of September 30, 2022.

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
(Dollars in thousands)	Net (Charge-off) Recovery	Average Loans HFI at amortized cost	Net (Charge-off) Recovery Ratio	Net (Charge-off) Recovery	Average Loans HFI at amortized cost	Net (Charge-off) Recovery Ratio
Residential real estate	$ —	$ 261,289	— %	$ —	$ 190,285	— %
Commercial real estate	2	337,651	—	2	258,562	—
Commercial and industrial	(2,794)	198,453	(5.63)	(1,291)	213,960	(2.41)
Commercial and industrial - PPP	—	3,080	—	—	18,739	—
Consumer and other	(860)	54,567	(6.30)	(598)	36,547	(6.54)
Total loans HFI at amortized cost	$ (3,652)	$ 855,040	(1.71)%	$ (1,887)	$ 718,093	(1.05)%

SBA and Other Government Guaranteed Loans

The following table sets forth, for the periods indicated, information regarding the SBA and other government guaranteed lending activity, excluding PPP loans.

(Dollars in thousands)	*(Dollars in thousands)*	At and for the Nine Months Ended September 30,	
(Dollars in thousands)			
(Dollars in thousands)			
Government Guaranteed, Excluding PPP			
Government Guaranteed, Excluding PPP			
Government Guaranteed, Excluding PPP	**Government Guaranteed, Excluding PPP**	**2023**	**2022**
Number of loans originated	Number of loans originated	1,968	825
Number of loans originated			
Number of loans originated			
Amount of loans originated			
Amount of loans originated			

Amount of loans originated	Amount of loans originated	$	402,528	$	276,583
Average loan size originated	Average loan size originated	$	205	$	335
Average loan size originated					
Average loan size originated					
Government guaranteed loan balances sold					
Government guaranteed loan balances sold					
Government guaranteed loan balances sold	Government guaranteed loan balances sold	$	316,333	$	233,105
Government unguaranteed loan balances sold	Government unguaranteed loan balances sold	$	10,937	$	13,803
Government unguaranteed loan balances sold					
Government unguaranteed loan balances sold					
Total government guaranteed loan balances:					
Total government guaranteed loan balances:					
Total government guaranteed loan balances:					
Guaranteed portion of government guaranteed loan balances					
Guaranteed portion of government guaranteed loan balances					
Guaranteed portion of government guaranteed loan balances					
Unguaranteed portion of government guaranteed loan balances					
Unguaranteed portion of government guaranteed loan balances					
Unguaranteed portion of government guaranteed loan balances					
Total government guaranteed loans	Total government guaranteed loans	$	373,719	$	286,798
Government guaranteed loan balances		$	176,062	$	138,261
Government unguaranteed loan balances		$	197,657	$	148,537
Total government guaranteed loans					
Total government guaranteed loans					
Government guaranteed loans serviced for others	Government guaranteed loans serviced for others	$	825,723	$	616,419
Government guaranteed loans serviced for others					
Government guaranteed loans serviced for others					

The Bank makes government guaranteed loans throughout the United States. The following table sets forth, at the dates indicated, information regarding the geographic disbursement of its government guaranteed loan portfolio. The “All Other” category includes states with less than 5% in any period presented.

		September 30,							
		2023				**2022**			
		March 31,							
		March 31,							
		March 31,							
		2024							
		2024							
		2024							
(Dollars in thousands)									
(Dollars in thousands)									
(Dollars in thousands)	*(Dollars in thousands)*	**Amount**		**% of Total**		**Amount**		**% of Total**	
Florida	Florida	$	131,928	35	%	$	89,373	31	%
Florida									
Florida									
California									

California					
California	California	45,121	12	31,930	11
Tennessee	Tennessee	28,395	8	18,672	7
Tennessee					
Tennessee					
Texas					
Texas					
Texas	Texas	23,710	6	21,478	7
All Other	All Other	144,565	39	125,345	44
All Other					
All Other					
Total government guaranteed loans, excluding PPP loans	Total government guaranteed loans, excluding PPP loans	$ 373,719	100 %	$ 286,798	100 %
Total government guaranteed loans, excluding PPP loans					
Total government guaranteed loans, excluding PPP loans					

Deposits

General. In addition to deposits, sources of funds available for lending and for other purposes include loan repayments and proceeds from the sales of loans. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are influenced significantly by general interest rates and market conditions. Borrowings, as well as available lines of credit, may be used on a short-term basis to compensate for reductions in other sources, such as deposits at less than projected levels.

Deposits. Deposits are sourced principally from within its primary service area of Pinellas, Hillsborough, Manatee, Pasco, and Sarasota Counties, Florida. The Bank offers a wide selection of deposit instruments including demand deposit accounts, NOW accounts, money-market accounts, regular savings accounts, certificate of time deposit accounts, and retirement savings plans (such as IRA accounts).

Certificate of Time deposit rates are set to encourage longer maturities as cost and market conditions will allow. Deposit account terms vary, with the primary differences being the minimum balance required, the time period the funds must remain on deposit, and the interest rate.

The Bank emphasizes commercial banking relationships in an effort to increase demand deposits as a percentage of total deposits. Deposit interest rates are set by management at least monthly or more often if conditions require it, based on a review of loan demand, recent cash flows and a survey of rates among competitors.

Brokered deposits. At times, the Bank has brokered time deposit and non-maturity deposit relationships available to diversify its funding sources. Brokered deposits offer several benefits relative to other funding sources, such as: maturity structures which cannot be duplicated in the current retail market, deposit gathering outside the market of the existing deposit base, the unsecured nature of these liabilities, and the ability to quickly generate funds. The Bank's internal policy limits the use of brokered deposits as a funding source to no more than 15% of total assets. The Company's ability to accept or renew brokered deposits is contingent upon the Bank maintaining a capital level of "well capitalized." At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had $167 thousand $30.5 million and $746 thousand, $30.0 million, respectively, of brokered deposits.

The amount of each of the following categories of deposits, at the dates indicated, are as follows:

(Dollars in thousands)	*(Dollars in thousands)*	September 30, 2023		December 31, 2022	
Noninterest-bearing deposits	Noninterest-bearing deposits	$ 98,008	9.6 %	$ 93,235	11.8 %
Interest-bearing transaction accounts	Interest-bearing transaction accounts	267,404	26.3	202,656	25.5
Money market accounts	Money market accounts	333,250	32.7	345,200	43.4
Savings	Savings	16,860	1.7	17,853	2.2
Subtotal	Subtotal	715,522	70.3	658,944	82.9

(Dollars in thousands)	March 31, 2024			December 31, 2023		
Noninterest-bearing deposits	$ 96,977	9.6	9.6 %	$ 93,708	9.5	9.5 %

Total time deposits	Total time deposits	302,274	29.7	136,126	17.1						
Total deposits	Total deposits	$1,017,796	100.0 %	$795,070	100.0 %	Total deposits	$ 1,007,315	100.0	100.0 %	$ 985,138	100.0	100.0 %

At September 30, 2023 March 31, 2024, the Company held approximately $152.5 million $158.4 million of deposits that exceeded the FDIC insurance limit which was 15% 16% of total deposits.

The following table provides information on the maturity distribution of the time deposits exceeding the FDIC insurance limit of $250 thousand as of September 30, 2023 March 31, 2024.

(Dollars in thousands)	
Three months or less	$ 27,073 16,484
Over three months through six months	11,668 5,507
Over six months through 12 months	16,581 34,377
Over 12 months	61,480 61,627
Total time deposits over $250	$ 116,802 117,995

Deposits increased $222.7 22.2 million or 28.01% 2.25% during the first nine three months of 2023, ended 2024, with growth in transaction noninterest-bearing deposits, money market accounts, (noninterest bearing and interest bearing transaction accounts) of $69.5 million or 23.5% and time deposit balance of $166.1 million, or 122.1%. Savings deposits, partially offset by decreases in interest-bearing transaction accounts and money market account balances decreased $12.9 million during the same period. The time deposit balance increase included a small increase of $6.4 million in short-term Certificate of Deposit Account Registry Service ("CDARS") and listing service balances. There were $244.1 million or 80.8% of total time deposits that mature within the next 18 months. savings.

Other Borrowings

At September 30, 2023 March 31, 2024, the Company had no $15.0 million of borrowings at 5.58% from the FHLB and FRB. There was $25.0 million of borrowings at 4.50% from the FRB and no borrowings from the FRB. There was $10.0 million of borrowings at 5.57% from the FHLB and no borrowings from the FRB at December 31, 2022 December 31, 2023.

The Bank is a member of the FHLB of Atlanta, which provides short- and long-term funding collateralized by mortgage-related assets to its members. FHLB short-term borrowings bear interest at variable rates set by the FHLB. Any advances that the bank were to obtain would be secured by a blanket lien on $274.9 304.5 million of real estate-related loans as of September 30, 2023 March 31, 2024. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow up to $156.5 162.0 million from the FHLB at September 30, 2023 March 31, 2024.

In addition, the Bank has a line of credit with the Federal Reserve Bank of Atlanta which was secured by $59.6 54.8 million of commercial loans as of September 30, 2023 March 31, 2024. FRB short-term borrowings bear interest at variable rates based on the Federal Open Market Committee's FOMC's target range for the federal funds rate. Based on this collateral, the Company was eligible to borrow up to $40.1 38.5 million from the FRB at September 30, 2023 March 31, 2024.

In June 2021, the The Company issued has $6.0 million of Subordinated Debentures (the “Debentures”) that mature June 30, 2031 and are redeemable after 5 years. years which is June 30, 2026. The Debentures carry interest at a fixed rate of 4.50% per annum for the initial 5 years of

term and carry interest at a floating rate for the final 5 years of term. term after June 30, 2026. Under the debt agreements, the floating rates are based on a SOFR benchmark plus 3.78% per annum. The balance of Subordinated

Debentures outstanding at the Company, net of offering costs, amounted to $5.9 6.0 million and $6.0 5.9 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

The Company has a term note with quarterly principal and interest payments with interest at Prime (8.50% at September 30, 2023 March 31, 2024). The note matures on March 10, 2029 and the balance of the note was $2.5 2.3 million and $2.8 $2.4 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The note is secured by 100% of the stock of the Company and requires the Company to comply with certain loan covenants during the term of the note. As of September 30, 2023 March 31, 2024, the Company was in compliance with all financial debt covenants.

Capital Resources

Shareholders' equity is influenced primarily by earnings, dividends, the Company's sales and repurchases of its common and preferred stock, and changes in accumulated other comprehensive income caused primarily by fluctuations in unrealized gains or losses, net of taxes, on available for sale investment securities.

Shareholders' equity increase decreased $2.3 million $0.1 million to $94.2 million $100.6 million at September 30, 2023 March 31, 2024 as compared to $91.9 million $100.7 million at December 31, 2022 December 31, 2023. The increase decrease was primarily due to common stock dividends of $0.3 million, preferred stock dividends of $0.4 million, and an increase in other comprehensive loss of $0.2 millionpartially offset by net income of $4.0 million and the issuance of preferred stock of $1.8 million. This was partially offset by the implementation of the new credit loss accounting standard. As a result of the accounting change, equity was reduced by $2.5 million $0.8 million .

The Company strives to maintain an adequate capital base to support its activities in a safe and sound manner while at the same time attempting to maximize shareholder value. Management assesses capital adequacy against the risk inherent in the balance sheet, recognizing that unexpected loss is the common denominator of risk and that common equity has the greatest capacity to absorb unexpected loss.

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

In 2020, the Federal banking regulatory agencies adopted a rule to simplify the methodology for measuring capital adequacy for smaller, uncomplicated banks. This CBLR is calculated as the ratio of tangible equity capital divided by average total consolidated assets. CBLR tangible equity is defined as total equity capital, prior to including minority interests, and excluding accumulated other comprehensive income, deferred tax assets arising from net operating loss and tax credit carryforwards, goodwill, and other intangible assets (other than mortgage servicing assets). Under the proposal, a qualifying organization may elect to use the CBLR framework if its CBLR is greater than 9%. The Bank elected not to use the CBLR framework.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Bank's capital ratios were in excess of the requirement to be "well capitalized" under the regulatory guidelines.

As of the dates indicated, the Bank met all capital adequacy requirements to which it is subject. The Bank’s actual capital amounts and percentages are were as shown in the table below:

		Actual		Minimum(1)		Well Capitalized(2)			Actual		Minimum(1)		Well Capitalized(2)	
(Dollars in thousands)	*(Dollars in thousands)*	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	*(Dollars in thousands)*	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
As of September 30, 2023														
As of March 31, 2024														
Total Capital (to risk-weighted assets)														
Total Capital (to risk-weighted assets)														
Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)	$109,171	13.47 %	$64,858	8.00 %	$81,072	10.00 %	$	113,545	12.29 12.29 %	$ 73,904	8.00 8.00 %	$ 92,380	10.00 10.00 %
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)	99,010	12.21	48,643	6.00	64,858	8.00							
Common Equity Tier 1 Capital (to risk-weighted assets)	Common Equity Tier 1 Capital (to risk-weighted assets)	99,010	12.21	36,482	4.50	52,697	6.50							
Tier 1 Capital (to total assets)	Tier 1 Capital (to total assets)	99,010	9.16	43,258	4.00	54,072	5.00							

As of December 31, 2022

As of December 31, 2023

Total Capital (to risk-weighted assets)

Total Capital (to risk-weighted assets)

Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)	108,307	15.00	57,767	8.00	72,209	10.00
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)	99,269	13.75	43,325	6.00	57,767	8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	Common Equity Tier 1 Capital (to risk-weighted assets)	99,269	13.75	32,494	4.50	46,936	6.50
Tier 1 Capital (to total assets)	Tier 1 Capital (to total assets)	99,269	10.79	36,816	4.00	46,020	5.00

(1) Minimum to be considered “adequately capitalized” under Basel III Capital Adequacy.

(2) Minimum to be considered “well capitalized” under Prompt Corrective Actions Provisions.

Off-Balance Sheet Arrangements

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments primarily include unfunded loan commitments, unfunded lines of credit, and standby letters of credit. The Bank uses these financial instruments to meet the financing needs of its customers. These financial instruments involve, to varying degrees, elements of credit, interest rate, and liquidity risk. These do not present unusual risks and management does not anticipate any accounting losses that would have a material effect on the Bank.

A summary of the amounts of the Bank’s financial instruments, with off-balance sheet risk as of the dates indicated, is was as follows:

(Dollars in thousands)	*(Dollars in thousands)*	**September 30, 2023**	**December 31, 2022**	*(Dollars in thousands)*	**March 31, 2024**	**December 31, 2023**
Unfunded loan commitments	Unfunded loan commitments	$ 20,459	$ 23,512			
Unused lines of credit	Unused lines of credit	169,634	134,366			
Standby letters of credit	Standby letters of credit	61	244			
Total	Total	$ 190,154	$ 158,122			

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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management 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 of the customer.

Standby letters-of-credit are conditional lending commitments that the Bank issues to guarantee the performance of a customer to a third party and to support private borrowing arrangements. Essentially, letters of credit have expiration dates within one year of the issue date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit. The Bank may hold collateral supporting those commitments.

In general, loan commitments and letters of credit are made on the same terms, including with respect to collateral, as outstanding loans. Each customer’s creditworthiness and the collateral required are evaluated on a case-by-case basis.

The Company maintains an ACL for its off-balance sheet loan commitments which is calculated by loan type using estimated line utilization rates based on historical usage. Loss rates for outstanding loans is applied to the estimated utilization rates to calculate the ACL for off-balance sheet loan commitments. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, ACL for off-balance sheet loan commitments totaled $844 $839 thousand and $511 thousand, respectively. for both periods.

Contractual Obligations

In the ordinary course of its operations, the Company enters into certain contractual obligations. Total contractual obligations at September 30, 2023 March 31, 2024 were $314.4 million $294.5 million, an increase of $139.5 million $13.8 million from $174.9 million $280.7 million at December 31, 2022 December 31, 2023. The increase was primarily due to an increase in time deposits of $166.1 million $8.9 million and short-term FHLB borrowings of which $4.3 million came from short-term CDARS brokered deposits. $5.0 million.

The following tables present our contractual obligations as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

Contractual Obligations as of September 30, 2023

Contractual Obligations as of March 31, 2024

Contractual Obligations as of March 31, 2024

(Dollars in thousands)	*(Dollars in thousands)*	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total	*(Dollars in thousands)*	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Operating lease obligations	Operating lease obligations	$ 1,117	$ 1,951	$ 619	$ —	$ 3,687						
Short-term borrowings	Short-term borrowings	—	—	—	—	—						
Long-term borrowings	Long-term borrowings	456	912	912	223	2,503						
Subordinated notes	Subordinated notes	—	—	—	5,947	5,947						
Time deposits	Time deposits	160,251	141,497	526	—	302,274						
Total	Total	$161,824	$144,360	$2,057	$6,170	$314,411						

Contractual Obligations as of December 31, 2022

Contractual Obligations as of December 31, 2023

Contractual Obligations as of December 31, 2023

Contractual Obligations as of December 31, 2023

(Dollars in thousands)	*(Dollars in thousands)*	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total	*(Dollars in thousands)*	Less than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Operating lease obligations	Operating lease obligations	$ 1,450	$ 2,267	$1,245	$ —	$ 4,962						
Short-term borrowings	Short-term borrowings	25,000	—	—	—	25,000						
Long-term borrowings	Long-term borrowings	456	912	912	564	2,844						
Subordinated notes	Subordinated notes	50	—	—	5,942	5,992						
Time deposits	Time deposits	120,240	15,587	299	—	136,126						
Total	Total	$146,740	$ 17,854	$1,544	$8,786	$174,924						

Liquidity

Liquidity management is the process by which the Bank manages the flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost to take advantage of earnings enhancement opportunities. These financial commitments include withdrawals by depositors, credit commitments to borrowers, expenses of the operations, and capital expenditures. The Bank generally maintains a minimum liquidity ratio of liquid assets to total assets of at least 7.0%. Liquid assets include cash and due from banks, federal funds sold, interest-bearing deposits with banks and unencumbered investment securities available for sale. The on-balance sheet liquidity ratio at September 30, 2023 March 31, 2024 was 13.99% 9.22%, as compared to 12.58% 9.33% at December 31, 2022 December 31, 2023.

During 2022, the first quarter of 2024, the Bank paid a quarterly dividends totaling $1.75 million dividend of $1.20 million to BayFirst. During the first two quarters of 2023, the Bank paid quarterly dividends totaling $1.75 million BayFirst in order to BayFirst. In the third quarter of 2023, BayFirst issued 1,835 shares of 11.0% Series C Cumulative Convertible Preferred Stock with gross proceeds of $1.8 million of which $1.3 million of the capital was injected to the Bank to support its growth and operations. Prior to 2021, the Bank retained its earnings to support its growth. BayFirst's liquidity had historically been dependent solely on funds received from the issuance and sale of subordinated debt and preferred stock.

BayFirst's meet liquidity needs are to make interest payments on its debt obligations, dividends on shares of its Series A Preferred Stock, Series B Convertible Preferred Stock, Series C Cumulative Convertible Preferred Stock, preferred stock and common stock, and payment of certain operating expenses. As of September 30, 2023 March 31, 2024, BayFirst Financial Corp. held $498 $912 thousand in cash and cash equivalents.

The Company expects that all the liquidity needs, including the contractual commitments can be met by currently available liquid assets and cash flows. In the event any unforeseen demand or commitments were to occur, the Company would could access the borrowing capacity with the FHLB, FRB, and lines of credit with other financial institutions. The Company does not rely on investment securities as the main source of liquidity and does not foresee the need to sell investment securities for cash flow purposes. In addition, the Company has the ability to obtain wholesale deposits as another source of liquidity. The Company expects that the currently available liquid assets and the ability to borrow from the FHLB, FRB, and other financial institutions would be sufficient to satisfy the liquidity needs without any material adverse effect on the Company's liquidity.

A description of BayFirst's and the Bank's debt obligations is set forth above under the heading "Other Borrowings."

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk and Interest Rate Sensitivity

Market risk is the risk of loss from adverse changes in market prices and rates. Market risk arises primarily from interest-rate risk inherent in loan and deposit taking activities. To that end, the Company actively monitors and manages its interest-rate risk exposure. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance sheet transactions are aggregated, and the resulting net positions are identified. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, should also be considered.

The objective in managing interest-rate risk is to minimize the adverse impact of changes in interest rates on net interest income and capital, while adjusting the asset-liability structure to obtain the maximum yield-cost spread on that structure. The Company relies primarily on its asset-liability structure to control interest rate risk. A sudden or substantial increase in interest rates may impact its earnings, to the extent that the interest rates borne by assets and liabilities do not change at the same rate, to the same extent, or on the same basis.

The Company established a comprehensive interest rate risk management policy which is administered by management's Asset-Liability Committee. The policy establishes risk limits, which are quantitative measures of the percentage change in net interest income (net interest income at risk) and the fair value of equity capital (economic value of equity at risk) resulting from a hypothetical change in interest rates for maturities from one day to 30 years. Management measures the potential adverse impacts that changing interest rates may have on its short-term earnings, long-term value, and liquidity with computer-generated simulation analysis. The simulation model is designed to capture call features and interest rate caps and floors embedded in investment and loan contracts. As with any method of analyzing interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from the assumptions used in modeling. The methodology does not measure the impact that higher rates may have on borrowers' ability to service their debts, or the impact of rate changes on demand for loan and deposit products.

To minimize the potential for adverse effects of changes in interest rates on the results of the operations, the Company monitors assets and liabilities to better match the maturities and repricing terms of the interest-earning assets and interest-bearing liabilities. To do this, the Company (i) emphasizes the origination of adjustable-rate and variable-rate loans to be held for investment; HFI; (ii) maintains a stable core deposit base; and (iii) maintains a significant portion of liquid assets (cash, interest-bearing deposits with other banks, and available for sale investment securities).

Management regularly reviews its exposure to changes in interest rates. Among the factors they consider are changes in the mix of interest-earning assets and interest-bearing liabilities, interest rate spreads and repricing periods. ALCO reviews, on at least a quarterly basis, its interest rate risk position.

The interest rate risk position is measured and monitored at the Bank using net interest income simulation models and economic value of equity sensitivity analysis that captures both short-term and long-term interest-rate risk exposure.

Modeling the sensitivity of net interest income and the economic value of equity to changes in market interest rates is highly dependent on numerous assumptions incorporated into the modeling process. The models used for these measurements rely on estimates of the potential impact that changes in interest rates may have on the value and prepayment speeds on all components of its loan portfolio, investment portfolio, as well as embedded options and cash flows of other assets and liabilities. Balance sheet growth assumptions are also included in the simulation modeling process. The analysis provides a framework as to what the overall sensitivity position is as of the most recent reported position and the impact that potential changes in interest rates may have on net interest income and the economic value of its equity.

Net interest income simulation involves forecasting net interest income under a variety of interest rate scenarios including instantaneous shocks.

The estimated impact on the net interest income as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, assuming immediate parallel moves in interest rates, is presented in the table below.

	September 30, 2023	**December 31, 2022**		
	March 31, 2024		**March 31, 2024**	**December 31, 2023**

Change in rates	Change in rates	Following 12 months	Following 24 months	Following 12 months	Following 24 months	Change in rates	Following 12 months	Following 24 months	Following 12 months	Following 24 months
+400 basis points	+400 basis points	16.6 %	15.0 %	11.0 %	11.9 %	+400 basis points	11.1 %	10.3 %	14.7 %	12.8 %
+300 basis points	+300 basis points	13.8	13.6	9.4	10.5					
+200 basis points	+200 basis points	8.5	8.5	5.4	6.1					
+100 basis points	+100 basis points	3.2	3.4	1.3	1.8					
-100 basis points	-100 basis points	(4.8)	(4.8)	(3.8)	(4.4)					
-200 basis points	-200 basis points	(9.6)	(5.4)	(8.3)	(9.5)					

Management strategies may impact future reporting periods, as the actual results may differ from simulated results due to the timing, magnitude, and frequency of interest rate changes, the difference between actual experience and the characteristics assumed, as well as changes in market conditions. Market-based prepayment speeds are factored into the analysis for loan and investment securities portfolios. Rate sensitivity for transactional deposit accounts is modeled based on both historical experience and external industry studies.

The Company uses economic value of equity sensitivity analysis to understand the impact of interest rate changes on long-term cash flows, income, and capital. Economic value of equity is based on discounting the cash flows for all balance sheet instruments under different interest rate scenarios.

The table below presents the change in the economic value of equity as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, assuming immediate parallel shifts in interest rates. Changes noted between the two periods reflect recent enhancements in the asset/liability modeling, including projected values for non-maturity deposits in changing interest rate environments.

Change in rates	Change in rates	September 30, 2023	December 31, 2022	Change in rates	March 31, 2024	December 31, 2023
+400 basis points	+400 basis points	(3.2) %	(12.7) %	+400 basis points	(5.5) %	(6.3) %
+300 basis points	+300 basis points	(1.8)	(9.5)			
+200 basis points	+200 basis points	(1.8)	(7.0)			
+100 basis points	+100 basis points	(1.9)	(4.3)			
-100 basis points	-100 basis points	(0.3)	2.6			
-200 basis points	-200 basis points	(1.2)	5.0			

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company’s disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Exchange Act), was carried out under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer as of September 30, 2023 March 31, 2024, the last day of the period covered by this Quarterly Report. The Company’s Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2023 March 31, 2024, in ensuring that the information required to be disclosed in the reports the Company files or submits under the Exchange Act is (i) accumulated and communicated to management (including the Company’s Chief Executive Officer and Chief Financial Officer) as appropriate to allow timely decisions regarding required disclosures, and (ii) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal period to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II

Item 1. Legal Proceedings

In the normal course of business, the Company is named or threatened to be named as a defendant in various lawsuits, none of which they expect is expected to have a material effect on the Company. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to its business (including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security, anti-money laundering and anti-terrorism), the Company, like all banking organizations, is subject to heightened legal and regulatory compliance and litigation risk. There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company is a party or to which its property is the subject.

Item 1A. Risk Factors

In addition to the risk factor discussed below and the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in the Company's Form 10-K for the year ended December 31, 2022 December 31, 2023. There have been no material changes from those risk factors previously disclosed. These factors could materially and adversely affect the Company's business, financial condition, liquidity, results of operations and capital position, and could cause its actual results to differ materially from its historical results or the results contemplated by the forward-looking statements contained in this report.

Loss of deposits or a change in deposit mix could increase our funding costs and adversely affect our performance.

Deposits are a low cost and stable source of funding. We compete with banks and other financial institutions for deposits and as a result, the Company could lose deposits in the future, clients may shift their deposits into higher cost products, or the Company may need to raise interest rates to avoid deposit attrition. Funding costs may also increase if deposits lost are replaced with wholesale funding. Higher funding costs reduce our net interest margin, net interest income, and net income. In recent months, the environment for maintaining and growing deposits has become more challenging. This is partially attributable to the FRB reducing the size of its balance sheet through quantitative tightening and continues to increase interest rates giving depositors an incentive to move deposits to money market funds and other higher-yielding alternatives. In addition, recent unusually high levels of withdrawals from other, larger banks, which in some cases has resulted in bank failure, may result in similar withdrawal patterns at the Company. Should we experience any of these events, we may need to rely on higher cost wholesale funding, which would adversely affect our financial performance and net income.

The Florida property insurance market is in crises and the inability of our borrowers to obtain insurance on properties securing our loans may adversely affect the value of the collateral, the performance of our loan portfolio, and our ability to make loans secured by real estate.

Florida is susceptible to hurricanes, tropical storms and related flooding and wind damage and other similar weather events. Such events can disrupt operations, result in damage to properties and negatively affect the local economies in our markets. As a result of the potential for such weather events, many of our customers have incurred significantly higher insurance premiums, or been unable to secure insurance, on their properties. This may adversely affect real estate sales and values in our markets and leave our borrowers without funds to repay their loans in the event of destructive weather events. Such events could result in a decline in loan originations, a decline in the value or destruction of properties securing loans and a decrease in credit quality, negatively impacting our business and results of operations.

Item 2. 5. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

Share Buyback Program. On February 28, 2023, the Board of Directors approved the Company's 2023 Stock Repurchase Program ("Repurchase Program"). The Repurchase Program permits the Company to repurchase up to $1,000,000 of the Company's issued and outstanding common stock. The Repurchase Program will continue until the earlier of: (i) the date an aggregate of $1,000,000 of common stock has been repurchased; (ii) December 31, 2023; or (iii) the termination of the plan by the Board of Directors.

The Inflation Reduction Act of 2022 created a new nondeductible 1% excise tax on repurchases of corporate stock by certain publicly traded corporations or their specified affiliates after December 31, 2022. The tax is imposed on the fair value of the stock of a covered corporation that is repurchased in a given year, less the fair market value of any stock issued in that year. A "covered corporation" is any domestic corporation whose stock is traded on an established securities market, such as Nasdaq. The excise tax applies to all of the stock of a covered corporation regardless of whether the corporation has profits or losses. The act contains several exceptions to the excise tax, including, but not limited to, any repurchase of stock: in which the total value of the repurchased stock in a given year does not exceed $1,000,000; that is contributed to an employer sponsored retirement plan or other similar stock compensation plan; that is taxed as a dividend. The impact of the Inflation Reduction Act of 2022 on our consolidated financial statements will be dependent on the extent of stock repurchases made in future periods.

The following table sets forth information regarding the Company's repurchase of shares of its outstanding common stock during the three months ended September 30, 2023.

Period	Number of Shares	Average Price Paid Per Share	Cumulative Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
July 1-31, 2023	—	$ —	750	$ 989,203
August 1-31, 2023	150	13.50	900	$ 987,178
September 1-30, 2023	—	—	900	$ 987,178
Total	150	$ 13.50		

Under applicable state law, Florida corporations are not permitted to retain treasury stock. As such, the price paid for the repurchased shares reduces the amount of common stock on the consolidated balance sheet. As of September 30, 2023, total shares repurchased for $12,822 had been redeemed since the Repurchase Program was implemented. The repurchased shares remain authorized, unissued shares. None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit Number	Exhibit Name
3.1	Amended and Restated Articles of Incorporation
3.2	Bylaws
3.3	Amendment to Bylaws, dated August 22, 2019
3.4	Amendment to Articles of Incorporation, Incorporation, dated September 7, 2023 September 7, 2023
4.1	Form of common stock certificate
4.2	Form of Series A Preferred Stock certificate
4.3	Form of Series B Convertible Preferred Stock certificate
4.4	Form of Series C Cumulative Convertible Preferred Stock certificate
31.1	Principal Executive Officer's Certification required by Rule 13(a)-14(a) - filed herewith
31.2	Principal Financial Officer's Certification required by Rule 13(a)-14(a) - filed herewith
32.1	Principal Executive Officer's Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - filed herewith
32.2	Principal Financial Officer's Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - filed herewith
101	Financial information from the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023, March 31, 2024, formatted in iXBRL interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to the Consolidated Financial Statements – filed herewith.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BAYFIRST FINANCIAL CORP.

Date:	November May 13, 2023 2024
By:	/s/ Anthony N. Leo Thomas G. Zernick
	Anthony N. Leo Thomas G. Zernick
	Chief Executive Officer
	(principal executive officer) Principal Executive Officer)
Date:	November May 13, 2023 2024
By:	/s/ Scott J. McKim
	Scott J. McKim
	Chief Financial Officer
	(principal financial officer) Principal Financial Officer)

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CERTIFICATIONS REQUIRED BY

RULE 13a-14(a) OR RULE 15d-14(a)

AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony N. Leo, Thomas G. Zernick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the “Report”) of BayFirst Financial Corp., Inc. (the “Registrant”);
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
    b) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and c) Disclosed in this Report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and d) Disclosed in this Report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

BAYFIRST FINANCIAL CORP.

Date: November 13, 2023 May 13, 2024

By: /s/ Anthony N. Leo Thomas G. Zernick
Anthony N. Leo Thomas G. Zernick
Chief Executive Officer
(principal executive officer)

CERTIFICATIONS REQUIRED BY

RULE 13a-14(a) OR RULE 15d-14(a)

AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott J. McKim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of BayFirst Financial Corp., Inc. (the "Registrant");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the Registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and c) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
   d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

BAYFIRST FINANCIAL CORP.

Date: November 13, 2023 May 13, 2024

By: /s/ Scott J. McKim
Scott J. McKim
Chief Financial Officer
(principal financial officer)

CERTIFICATIONS PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony N. Leo, Thomas G. Zernick, Chief Executive Officer of BayFirst Financial Corp. (the “Company”) certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1) The Quarterly Report on Form 10-Q of the Company for the quarter period ended September 30, 2023 March 31, 2024 (the “Report”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

BAYFIRST FINANCIAL CORP.

Date: November 13, 2023 May 13, 2024

By: /s/ Anthony N. Leo Thomas G. Zernick
Anthony N. Leo Thomas G. Zernick
Chief Executive Officer
(principal executive officer)

CERTIFICATIONS PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott J. McKim, Chief Financial Officer of BayFirst Financial Corp. (the “Company”) certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1) The Quarterly Report on Form 10-Q of the Company for the quarter period ended September 30, 2023 March 31, 2024 (the “Report”) fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

BAYFIRST FINANCIAL CORP.

Date: November 13, 2023 May 13, 2024

By: /s/ Scott J. McKim
Scott J. McKim
Chief Financial Officer
(principal financial officer)

DISCLAIMER

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