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DELTA REPORT

10-K

BAYFIRST FINANCIAL CORP.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 3191

█ **CHANGES** 333

█ **DELETIONS** 1774

█ **ADDITIONS** 1084

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2022** **December 31, 2023**

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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 No

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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 No

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the Registrant, computed by reference to the \$17.40 per share selling price of the common stock on June 30, 2022 was \$57,243,887.

The registrant had outstanding 4,098,965 shares of common stock as of March 20, 2023

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the Registrant, computed by reference to the \$17.40 per share selling price of the common stock on June 30, 2022 was \$57,243,887

The registrant had outstanding 4,134,964 shares of common stock as of March 18, 2024.

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Glossary of Acronyms and Abbreviations

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

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

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Part I Item 1. Business

BayFirst Financial Corp.

BayFirst Financial Corp. ("BayFirst" or the "Company") is a bank holding company that operates through its wholly owned subsidiary, BayFirst National Bank (the "Bank"), together referred to as "the Company" or "BayFirst". BayFirst commenced its bank holding company operations on September 1, 2000, by acquiring all shares of the Bank. BayFirst's primary source of income is from the Bank, which serves a broad spectrum of consumers and small businesses in the Tampa Bay region and is supported by a national SBA government guaranteed lending business line. BayFirst utilizes this national business line to provide financial support for the delivery and expansion of traditional banking services, and to serve as a specialized lead product to introduce the Bank to new customers in the Tampa Bay region. BayFirst strives to be a progressive institution in its products and services, technology, design, and social responsibility. As of December 31, 2022 December 31, 2023, BayFirst had consolidated total assets of \$938.9 million \$1.12 billion, total loans held for investment of \$728.7 million \$915.7 million, total deposits of \$795.1 million \$985.1 million, and total shareholders' equity of \$91.9 million \$100.7 million. BayFirst's corporate office is located at the BayFirst Executive Center, 700 Central Avenue, St. Petersburg, Florida 33701.

BayFirst National Bank

The Bank commenced operations on February 12, 1999, as a Florida state-chartered commercial bank. In 2022, the Bank converted its charter to a national banking association. The Bank currently operates out of its main office and eight eleven additional banking centers located in the Tampa Bay area, and 1 loan production office in Sarasota. Bay/Sarasota area. The Bank's main office is located at the BayFirst Executive Center. The Bank does not engage in any foreign business activities.

The Bank offers its products and services through its Community Banking Division and its separately branded loan origination platform, CreditBench. CreditBench is a government guaranteed lender with specific expertise in originating SBA 7(a) loans and USDA loans throughout the nation. During the second quarter of 2022, the Bank began the Bolt loan program, an SBA 7(a) loan product designed to expeditiously provide working capital loans of \$150 thousand or less to businesses. The Bank has originated 3,408 Bolt loans totaling \$441.8 million through December 31, 2023.

CreditBench also has an advanced technology platform for our SBA 7(a) Small Loan Program called FlashCap, that enables the Bank to utilize and support technology-enabled banking products and services as well as various financial technology applications.

Community Banking

The Bank has structured its community banking services and charges for such services in a manner designed to attract consumers, small and medium sized businesses, and professionals located primarily in Pinellas, Hillsborough, Sarasota, Manatee, and Pasco Counties. The Bank focuses on customers that are seeking the flexibility and personalized relationships that a community bank can provide. The Bank offers specialized business and personal checking accounts, internet banking and online bill payment, remote capture and deposit, cash management, wire transfers, safety deposit boxes, courier services, retail investment services, and ACH originations, among other services. Retail investment services are facilitated through an independent broker-dealer through a relationship with a shared service organization.

The Bank also offers customary community bank deposit products, including interest-bearing and noninterest-bearing checking accounts, MMDAs, savings accounts, certificates of deposit and IRAs. The consumer product offering also includes unique programs, including, among others: 1) the NuStart Essential checking that assists customers in rebuilding their access to the banking system, 2) the TrendSetters Club which offers special benefits for those customers age 50+ years, and 3) the Cash Kids' Club savings account that offers those age 12 and under special rates while teaching children basic financial skills through interactive and mobile application tools. The Bank's business deposit products and related services include free checking accounts, interest-bearing checking accounts, savings accounts, money market accounts, MMDA, and access to business mobile and online banking, treasury management, cash management, merchant processing services, remote deposit capture, and night depository.

A wide range of loans are also offered, including commercial, consumer, and real estate loans. The commercial lending efforts are directed principally toward businesses and professionals who otherwise do business with us, and include commercial real estate mortgages, construction and development loans, working capital loans, and business expansion loans. In addition, the Bank has a minority lending program for women or minority business owners looking to take their business to the next level. BayFirst focuses its SBA government guaranteed and commercial lending divisions on providing the customer quick turnaround, competitive rates, and an easy application process. The Bank offers personal lines of credit,

auto, boat, and recreational vehicle loans, residential mortgages, and home equity lines of credit. The Bank has been particularly successful in penetrating the small business community. The Bank participates in interbank credit arrangements to permit the Bank to take part in corporate or other business entity loans for amounts which are greater than its lending limits.

As of December 31, 2022 December 31, 2023, the Community Banking Division operated from eight eleven banking centers in the Tampa Bay area: five in Pinellas County, one two in Hillsborough County, one in Manatee County, and one three in Sarasota County. Additionally, in February 2024, the Bank opened a second Tampa the twelfth banking center which is located in February 2023 with two additional banking centers planned in Sarasota currently under construction with one expected to open in mid 2023 and the other in late 2023 or early 2024, expanding the network of banking centers throughout the Tampa Bay region. Sarasota.

CreditBench

The Bank, through its separately branded loan origination platform CreditBench, originates government guaranteed loans on a nationwide basis, with a particular emphasis on SBA 7(a) loans. Government guaranteed loans are designed to assist small businesses in obtaining financing. CreditBench's loan origination efforts are targeted to a broad range of industries and geographies, with a focus on building relationships with borrowers. This diversification is intended to mitigate the Bank's credit risk. Deposit products are also marketed to borrowers, particularly those borrowers in the Bank's primary market area.

CreditBench originates loans through two distinct channels. One is its team of SBA government guaranteed lenders, known as the Core SBA Government Guaranteed Loan Team. The other is for smaller loans that are processed through financial technology platforms, collectively known and branded as FlashCap. CreditBench's Core SBA Government Guaranteed Loan Team makes government guaranteed loans throughout the U.S., with a particular emphasis on business acquisition financing. Currently, the Core SBA Government Guaranteed Loan Team is concentrated in the Tampa Bay area with an expanding national sales team. FlashCap employs an internal sales team and uses referral

partners and financial technology companies to originate SBA government guaranteed loans nationwide. Underwriting, quality control, and technology are centralized and scalable for potential increases in loan volume. Late in During the second quarter of 2022, the Company launched BOLT, Bolt, an SBA 7(a) loan product designed to expeditiously provide working capital loans of \$150 thousand or less to businesses throughout the country. CreditBench also originates USDA B&I loans for businesses located in qualifying areas.

The federal government guarantees 75% to 90% of SBA loan balances and up to 80% of USDA B&I loan balances as an incentive for financial institutions to make loans to small businesses. Eligible uses of SBA and USDA B&I loans are for working capital, equipment financing, debt refinancing, purchase of inventory, new construction, building acquisitions, business acquisitions, and startup expenses. The program maximum limit for SBA loans is \$5.0 million, and the program maximum limit for USDA loans is \$25.0 million. Both can be priced competitively relative to conventional financing.

In March of 2020, the Bank made the strategic decision to become an active PPP lender, using local marketing efforts and a nationwide, online application platform. The Bank used the Federal Reserve's PPPLF to fund a significant portion of these loans. The Bank funded its last PPP loans in the third quarter of 2021. As of December 31, 2022, the Bank had \$19.2 million of PPP loans remaining on the books.

The Bank manages its government guaranteed lending program through a staff experienced in business development, loan documentation and monitoring, and accounting. Emphasis is placed on proper loan documentation to ensure full guarantee performance in the event of payment defaults.

The revenue generated from CreditBench's loan originations is primarily derived from three sources: interest income, loan servicing, and premiums from the sale of loans. The Bank may elect to hold the government guaranteed portion of a loan on its balance sheet to increase interest income. Alternatively, the Bank may sell that portion to realize a premium on the sale.

In addition, the Bank may also sell a portion of the unguaranteed balance of certain government guaranteed loans, depending on a loan's terms, the offer price, its liquidity and capital positions, and the perceived credit risk.

Residential Mortgage Division

In the third quarter of 2022, management decided to discontinue its nationwide residential lending business. Prior to those decisions, the Residential Mortgage Division operated from the banking centers in the Tampa Bay area and loan production offices nationwide. 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. The Bank continues to offer fixed and variable rate home mortgages for the purchase and refinance of residential properties through the community banking centers, as well as a loan production center.

The Bank sells most of the residential mortgage loans which are originated into the secondary market through a broker arrangement. The Bank also originates loans to be held in its loan portfolio. The portfolio loans are generally high quality, adjustable rate, non-conforming mortgages located in the primary service area where there is a greater opportunity to cross-sell cross-

sell other Bank products and services. The ability to fund such non-conforming loans provides the Bank a competitive advantage compared to non-bank mortgage lenders. In 2022, the Bank retained in its loan portfolio an increased volume of originated residential mortgage loans than in previous years.

The Bank's residential mortgages are originated, processed, underwritten, and closed to secondary market standards or Bank policy. In connection with the origination of mortgage loans intended for sale, the Bank uses a broker to underwrite, close, and sell the loans. For loans held in its loan portfolio, the Bank underwrites and closes these loans in-house utilizing the brokers' technology system. There are no free-standing derivatives associated with the current lending process.

The Bank engages a subservicer for residential mortgage loans that is currently servicing most portfolio residential mortgage loans.

Competition

All phases of the Bank's operations are highly competitive. Many of the commercial banks and other competitors have assets, capital, lending limits, and name recognition that are materially larger than the Bank's. The Bank competes with other financial service providers for loans and deposits. These competitors include:

- larger national, super-regional, and regional financial institutions that have well-established branches and significant market share in the communities the Bank serves;
- non-bank SBA government guaranteed lenders;
- finance companies, investment banking and brokerage firms, and insurance companies that offer bank-like products;
- credit unions, which can offer highly competitive rates on loans and deposits because they receive tax advantages not available to commercial banks;
- other community banks that compete with the Bank for clients desiring a high level of service; and
- technology-based financial institutions, including large national, super-regional, and regional banks offering online deposit, bill payment and mortgage loan application services.

Some of the non-traditional financial institution competitors are not subject to the same degree of regulatory oversight to which the Bank is subject.

Among the advantages that the larger competitors have over the Bank are their ability to finance wide-ranging marketing campaigns and to allocate their investment assets to products with the highest yields and demands. Several of the competitors offer certain services, such as trust departments, that the Bank does not offer. By virtue of their greater

total capital, these financial service providers have substantially higher loan-to-one borrower limits than the Bank (loans-to-one borrower limits apply to an individual customer's total extension of credit as a percentage of a bank's total capital). These competitors may intensify their advertising and other marketing activities to counter any efforts by the Bank to attract new business.

To compete with the financial institutions in its primary service area, the Bank capitalizes upon the flexibility that its independent status allows, including making decisions locally. This includes solicitation of business, professional, and personal accounts through the personal efforts of the Bank's directors and officers. The Bank believes that a locally-based bank is often perceived by the local business community as possessing a clearer understanding of local commerce and the needs of the community. Consequently, its customers expect that the Bank will be able to make prudent lending decisions quicker and with a better understanding of the market than larger competitors. The Bank focuses on the smaller commercial customer because this segment offers the greatest concentration of potential business and historically has tended to demonstrate a higher degree of loyalty in their banking relationships. The Bank can respond quickly to changes in the interest rates paid on time and savings deposits and charged on loans, and to charges imposed on depository accounts, so as to remain competitive in the marketplace. If there are customers whose loan demands exceed the Bank's loan limits, the Bank can arrange for such loans on a participation basis with other financial institutions.

Various legislative actions in recent years have led to increased competition among financial institutions. With the enactment of various laws and regulations affecting interstate banking expansion, it is easier for financial institutions located outside of Florida to enter the Florida market, including the Bank's target markets. In addition, recent legislative and regulatory changes and technological advances have enabled customers to conduct banking activities without regard to geographic barriers, through internet and telephone-based banking and similar services. There can be no assurance that the

United States Congress, the Florida Legislature, or the applicable bank regulatory agencies will not enact legislation or promulgate regulations that may further increase competitive pressures on the Bank.

Lending Philosophy and Credit Risk Management

Historically, the Company believes they have made sound, high-quality loans while recognizing that lending involves a degree of risk. The Bank's centralized credit approval process and loan policies are designed to assist management in managing this risk. The policies provide a general framework for loan origination, monitoring, and funding. The Bank's loan approval process is characterized by centralized authority supported by a risk control environment that provides for prompt and thorough underwriting of loans. The loan approval process begins with obtaining detailed financial and other information from the Bank's borrowers. The Bank also relies on its loan and executive officers' in-depth knowledge of its markets and borrowers.

Regardless of the loan type or amount, no single individual has sole loan approval authority. The objective of the loan approval process is to provide a disciplined, consistent, predictable, and collaborative approach to larger credits, while maintaining responsiveness to client needs. Commercial loan decisions are documented as to the borrower's business, loan purpose, the evaluation of the repayment source and associated risks, the evaluation of collateral, loan covenants, loan monitoring requirements, and the risk rating rationale. The Bank's strategy for approving loans is to follow conservative loan policies and consistent underwriting practices which include:

- Granting credit on a sound basis with full knowledge of the purpose and source of repayment for such credit;
- Ensuring that primary and secondary sources of repayment are adequate in relation to the amount of the loan;
- Requiring documentation, including appraisals or valuations, sufficient to enable informed underwriting;
- Developing and adhering to desired levels of diversification for the loan portfolio as a whole and for loans within each category; and
- Ensuring that each loan is properly documented and that any insurance coverage requirements are satisfied.

The loan policies generally include other underwriting guidelines for loans collateralized by real estate. These underwriting standards are designed to determine the maximum loan amount that a borrower has the capacity to repay based, in part, upon the borrower's cash flow and income. The loan policies include maximum amortization schedules and loan terms for each category of loans. In addition, the loan policies provide guidelines for personal guarantees, appraisals and valuations, loan-to-value ratios, environmental review, loans to employees, executive officers and directors, problem loan identification, maintenance of an adequate **loan credit** loss reserve, and other matters relating to lending practices.

The **Community Banking Centers** **community banking centers** originate residential mortgage, consumer and commercial loans. The Bank utilizes a broker arrangement to originate residential mortgage loans to be sold in the secondary market. These residential mortgage loans are underwritten to meet secondary market standards so that loans can be sold into the secondary market. Some residential mortgage loans are held for **its** **the Bank's** portfolio. Portfolio loans are primarily underwritten by the Bank on the borrowers' financial strength and cash flow, with conservative loan-to-value requirements. Consumer loans include loans to individuals for automobiles, boats, and other major **consumer** personal, family, or household purposes. They are underwritten on the credit quality of the individual borrower and may be secured or unsecured. Commercial lending products include a wide variety of credit facilities, such as owner occupied and non-owner occupied commercial real estate, multifamily real estate, construction, land acquisition, and commercial and industrial loans. In general, the Bank's commercial lending strategy focuses on the financial strength and successful track record of commercial loan applicants more than the project or type of property that would serve as collateral for a loan. These loans are underwritten by an independent in-house Credit Underwriting Department in accordance with its credit policy.

CreditBench primarily originates loans through the SBA 7(a) program, and, to a lesser extent, through the USDA's B&I program. Occasionally, CreditBench originates loans through the SBA's 504 loan program, the International Trade Loan program, and the SBA Express Loan program. CreditBench originates two distinct types of loans: complex loans and non-complex loans. The non-complex loans are originated pursuant to the SBA 7(a) Small Loan Program up to \$350,000 and are underwritten through a streamlined underwriting and packaging process. Although the SBA 7(a) Small Loan Program permits broader underwriting and loan purpose parameters, non-complex CreditBench loans are limited to those underwritten via historical cash flow and exclude start-up and business acquisition financing. Within the FlashCap program, we offer **BOLT** **Bolt** loans up to \$150,000 for working capital purposes. **BOLT** **Bolt** loans are guaranteed up to 85% by the SBA and **are** primarily underwritten based upon predictive scores and character analysis of the business and its principals.

All CreditBench loans regardless of size which require projection-based underwriting or have other complex characteristics, such as business acquisition financing, are underwritten subject to SBA or USDA B&I guidelines and contain a thorough underwriting analysis based on the credit quality of any guarantor as well as the historical and projected debt service coverage.

Risk Management

The Company believes that effective risk management and control processes are critical to safety and soundness of the Bank, the ability to predict and manage the challenges that they face, and, ultimately, the long-term corporate success. Risk management refers to the activities by which the Company identifies, measures, monitors, evaluates, and manages the risks they face in the course of banking activities. These risks include liquidity, interest rate, credit, operational, compliance, regulatory, strategic, financial, and reputational risk exposures. The Board of Directors, both directly and through their committees, are responsible for overseeing the risk management processes, including quarterly enterprise risk management assessments and annual assessments in the following areas: (i) cyber; (ii) BSA/anti-money laundering; and (iii) third-party risk, with each of the committees of the Board of Directors assuming a different and important role in overseeing the management of the risks.

The Audit and Risk Management Committees of the Board of Directors are responsible for overseeing risks associated with financial matters (particularly financial reporting, accounting practices and policies, disclosure controls and procedures, and internal control over financial reporting) as well as other enterprise risks. The Compensation Committee of the Board of Directors has primary responsibility for risks and exposures associated with the compensation policies, plans, and practices regarding both executive compensation, Board compensation, and the compensation structure generally. The Compensation Committee, in conjunction with the Chief Executive Officer and other members of the management team, as appropriate, reviews the incentive compensation arrangements to ensure these programs are consistent with applicable laws and regulations, including safety and soundness requirements, and do not encourage imprudent or excessive risk-taking by the employees. The Nominating Committee of the Board of Directors oversees risks associated with the independence of the Board of Directors and potential conflicts of interest.

The senior management team is responsible for implementing the risk management processes by assessing and managing the risks ~~they~~^{we} face, including strategic, operational, regulatory, investment, and execution risks, on a day-to-day basis, and reporting to the Board of Directors regarding the risk management processes. The senior management team is also responsible for creating and recommending to the Board of Directors for approval of appropriate risk appetite metrics reflecting the aggregate levels and types of risk they are willing to accept in connection with the operation of the business and pursuit of the business objectives.

The role of the Board of Directors in the Company's risk oversight is consistent with the leadership structure, with the Chief Executive Officer and the other members of senior management having responsibility for assessing and managing the risk exposure, and the Board of Directors and their committees providing oversight in connection with those efforts. The Company believes this division of risk management responsibilities presents a consistent, systemic, and effective approach for identifying, managing, and mitigating risks throughout the Company's operations.

Information Technology Systems

The Company has made, and continues to make, significant investments in its information technology systems and staff to support banking activities. The Company believes this investment will support continued growth and enable them to enhance the capabilities to offer new products, improve overall customer experience, improve profitability through efficiencies, maintain and improve cybersecurity, and provide scalability for future growth. The Company utilizes nationally recognized software vendors and their cloud/hosted models, which allow them to outsource the processing of data. The Company's internal network and e-mail systems are administered by a managed service provider specializing in financial institutions, and they maintain production infrastructure in a data center facility near Tampa, Florida. This site provides for power and connectivity redundancy, and they maintain a disaster recovery program, including a cloud-based recovery environment.

The majority of the other systems, including electronic funds transfer, transaction processing, and online banking services are hosted by third-party service providers. The scalability of this infrastructure will support the Bank's growth strategy. In

addition, the tested capability of these vendors to automatically switch over to standby systems should allow the Bank to recover the systems and provide business continuity quickly in case of a disaster.

Privacy, Data Protection and Cybersecurity

The regulatory framework for data privacy and cybersecurity is rapidly evolving. Current federal law requires financial institutions to periodically disclose their privacy policies and practices related to sharing client information. Such laws allow consumer clients to opt out of having their information shared with unaffiliated third parties under certain circumstances. Other federal and state laws and regulations impact the ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact clients with marketing offers. Current federal law also requires financial institutions to implement a comprehensive information security program. Such programs must include administrative, procedural, and physical safeguards to ensure the security and confidentiality of client records and personal information. These security and privacy policies and procedures are in effect across the Bank.

Federal banking agencies pay close attention to the cybersecurity practices of banks. Such agencies ~~include a review of~~ an institution's information technology program and its ability to prevent cyberattacks. The FFIEC released its Architecture, Infrastructure, and Operations (AIO) Booklet in June 2021. The AIO Booklet calls for a layered security approach that incorporates administrative, procedural, and physical controls to include employee, vendor, and client awareness training. The Bank's cybersecurity and information

security practices incorporate preventative, detective, corrective, compensatory, and deterrent controls. Failing to have adequate cybersecurity safeguards in place, in accordance with AIO and other applicable regulations and laws, can result in supervisory criticism, monetary penalties and reputational harm.

In November 2021, the Federal Reserve, OCC, and FDIC adopted a new regulation for computer-security incident notification requirements for banking organizations and their bank service providers. Among other things, this regulation requires a bank to notify its primary federal regulator within 36 hours after identifying a "computer-security incident" that the bank believes in good faith could: (i) materially disrupt or degrade its business or operations in a manner that would threaten the viability of its operations and result in clients being unable to access their deposit and other accounts; (ii) result in a material loss of revenue, earnings or franchise value; or (iii) pose a threat to the financial stability of the United States.

Data privacy and data protection are also areas of increasing regulatory and legislative focus. The Bank is subject to rules and regulations issued by the Federal Trade Commission, which regulates unfair or deceptive acts or practices, including those related to data privacy and cybersecurity. Like other lenders, the Bank uses credit bureaus in its underwriting activities. Use of such data is regulated under the Fair Credit Reporting Act, which also regulates identity theft prevention programs, reporting information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates, and using affiliate data for marketing purposes. Federal law further requires financial institutions to explain their information-sharing practices to their clients and to protect sensitive client information.

Human Capital

Since opening in 1999, BayFirst has grown significantly without losing sight of its commitment to making an impact in the communities served and being Here for What's Next® in the lives of the Company's customers, communities, employees, and investors. As of December 31, 2022 December 31, 2023, BayFirst had 292 306 employees (289 304 full-time and 32 part-time) and recognizes that they are its greatest asset. Providing a work environment that is inclusive, transparent, and comfortable for all is foundational to the Bank's core beliefs. The Company is an organization that values open communication and collaboration in a professional and challenging, yet informal atmosphere.

Total Rewards

The Bank's industry-leading competitive compensation and benefits package helps attract and retain top talent throughout the U.S. and demonstrates its belief that engaged and satisfied employees directly correlate to engaged and satisfied customers, generating long-term value for the Company's stakeholders.

The Bank's goal is to provide the most competitive compensation and benefit plans possible. In 2021, 2023, BayFirst established a living minimum wage of \$18 \$20 per hour. The Bank has a generous 401(k) plan, plus a discretionary profit-sharing contributions to its Employee Stock Ownership Plan. All Most employees are shareholders through their participation in the ESOP. Additionally, employees have the opportunity to grow their ownership through a discounted non-qualified Employee Stock Purchase Plan.

BayFirst offers a wide range of health and welfare plans designed to fit its diverse population. The Bank provides 100% employer-paid premiums for medical, dental, vision, disability, and life insurance for the employee. The Bank offers an

employee wellness program designed to support the whole employee which encompasses physical, mental, social, and financial wellness.

BayFirst provides both paid maternity and paternity leave through the parental leave program. In addition, the Banks' no-cost, short-term disability policy is administered in-house and provides up to 12 weeks of medical leave at 100% pay. The Bank recognizes the burdensome expense of dependent care and provides a company match to employees' dependent care FSA accounts. The Bank provides paid volunteer time off to all employees building engagement and pride in the organization while encouraging teams to give back to their communities.

Training and Development

As part of the commitment to being a top employer in the industry and the premier community bank of Tampa Bay, BayFirst offers a growing internal Learning and Development Center where employees not only learn compliance and regulation, but also have the opportunity to strengthen core competencies for career growth and personal development.

The Bank offers both a tuition reimbursement and student loan assistance program to all eligible employees. The Bank offers these programs to nurture the professional development of the Bank's colleagues and ease the financial burden associated with continuing education.

Social Governance: Diversity, Equity, and Inclusion

The Bank's cultural foundation of being *current and comfortable for all* drives the Diversity, Equity, and Inclusion committee's efforts throughout the entire organization. The diversity enhances its workforce, expands the markets and fosters a culture of belonging for its employees, customers and communities in which the Bank serves.

As of December 31, 2022 December 31, 2023, the Bank's employee base was comprised of individuals from all walks of life, genders, ethnicities, races, ages and differing economic and social backgrounds. Females represented 62% 59% of the Company's employee base while minorities represented 32% of its population. The officer base was 47% 50% female and 23% 19% minority.

BayFirst has an active Diversity, Equity, and Inclusion council with a purpose of ensuring BayFirst reflects the values, respects the viewpoints, and acknowledges the differences of not only the community members it serves, but also the people it employs. Through its focus on these three core components, the Council council seeks to build an environment where everyone belongs, everyone is heard, everyone is aware of what's next, and everyone is given the opportunity to succeed. The Council council actively advocates for the ongoing implementation and evaluation of internal and external programs, initiatives, and procedures to ensure the bank remains forward-thinking and aligned with the ever-evolving societal landscape. Through its focus on diversity, equity, and inclusion, the Council council works to fulfill its obligation to be the voice for all associated with BayFirst.

Employee Engagement

The Bank believes employee engagement is what sets the Bank apart from the competition. The Bank endeavors to recruit and retain some of the best and brightest talent across the U.S. When highly talented, skilled and driven individuals join the organization, they bring with them some of the best ideas, strategies, procedures and thoughts.

BayFirst understands that harnessing this level of engagement is critical to its success and has developed several channels to do so. The Bank's Bright Ideas Submission Portal allows any employee to submit their ideas for improvement or change of policies, procedures, benefits or any other item they believe will improve the organization. To ensure employees understand the commitment of listening to feedback, each Bright Idea submission is reviewed by the **CEO, CEO and executive team**.

The CEO also hosts a quarterly CEO's **Council** **council** where individuals from across the organization spend the day with the CEO and executive team, providing feedback and input on improvement opportunities. The Bank also completes periodic Officer's Surveys where each officer is asked to provide feedback on specific areas of the organization and its strategy.

One of the greatest engagement and communication tools is the "What's Next" call where ALL employees are invited to a weekly video conference where ideas are exchanged, updates are provided, and business and individual recognitions are communicated.

The Bank's efforts were recognized through an anonymous employee survey which ranked BayFirst in the top 15 of the 2022 Best Places to Work in Tampa Bay.

Environmental, Corporate Social and Governance Responsibility Policy

In 2021, BayFirst advanced its **ESG** **Corporate Social Responsibility** initiatives by forming a Board of Directors' level committee and developing a policy and policy statement. As a progressive institution, BayFirst is committed to the highest standards in all aspects of its operations. As both a Tampa Bay community bank and a nationwide lender, the Company believes it is their responsibility to take an important role in advancing the values they hold, including being an exemplary corporate citizen, providing fair and equitable access to the banking system, engaging with the communities, addressing climate change, providing full disclosure and transparency, providing a safe and secure banking experience, and offering the team the best possible workplace and opportunity for advancement. The main pillars of BayFirst's **ESG** **Corporate Social Responsibility** policy include 1) Fair and Equitable Access to Banking Services, 2) Environmental Sustainability, 3) Community Engagement, 4) Employee/Workforce Management and Well Being, and 5) Governance, Data Security, and Business Ethics.

Supervision and Regulation

General

As a bank holding company, the Company is subject to an extensive body of state and federal banking laws and regulations that impose specific requirements and restrictions on virtually all aspects of the Company's operations. The Company is affected by government monetary policy and by regulatory measures affecting the banking industry in general.

The following is a summary of some of the statutes, rules, and regulations that affect the operations. This summary is qualified in its entirety by reference to the particular statutory and regulatory provision referred to below, and is not intended to be an exhaustive description of the applicable statutes or regulations. Any change in applicable laws or regulations may have a material adverse effect on the business.

BayFirst Financial Corp.

BayFirst is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended. As such, the Company is required to file annual reports and other information with the Federal Reserve regarding the Company's business operations and those of the subsidiary. The Company is also subject to the supervision of, and to periodic inspections by, the Federal Reserve.

The BHCA generally requires every bank holding company to obtain approval from the Federal Reserve before:

- acquiring all or substantially all of the assets of a bank;
- acquiring direct or indirect ownership or control of 5% or more of the voting shares of any bank or bank holding company; or
- merging or consolidating with another bank holding company.

The BHCA and the Change in Bank Control Act, together with regulations promulgated by the Federal Reserve, require that, depending on the particular circumstances, either the Federal Reserve's approval must be obtained or notice must be furnished to the Federal Reserve and not disapproved prior to any person or company, not a bank holding company, acquiring control of a bank holding company, subject to certain exemptions. Control is conclusively presumed to exist when an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the bank holding company has registered securities under Section 12 of the Exchange Act or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

Additionally, the BHCA provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed below. As a result of the USA Patriot Act, the Federal Reserve is also required to consider the record of a bank holding company and its subsidiary bank(s) in combating money laundering activities in its evaluation of bank holding company merger or acquisition transactions.

Except as authorized by the BHCA and Federal Reserve regulations or order, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of 5% or more of the voting shares of any company engaged in any business other than the business of banking or managing and controlling banks. The primary exception allows the ownership of shares by a bank holding company in any company the activities of which the Federal Reserve has determined to be so closely related to banking or to managing or controlling banks that ownership of shares of that company is appropriate. Activities the Federal Reserve has determined by regulation to be proper incidents to the business of banking, and thus permissible for bank holding companies, include:

- making or servicing loans and certain types of leases;
- engaging in certain insurance and discount brokerage activities;
- performing certain data processing services;
- acting in certain circumstances as a fiduciary or investment or financial advisor;
- providing management consulting services;
- owning savings associations; and
- making investments in corporations or projects designed primarily to promote community welfare.

In accordance with Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to its subsidiary banks. In adhering to the Federal Reserve's policy, the Company may be required to provide financial support to the Bank at a time when, absent such Federal Reserve policy, it might not be deemed advisable to provide such assistance. Under the BHCA, the Federal Reserve may also require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Such support may be required at times when, absent this Federal Reserve policy, a holding company may not be inclined to provide it. A bank holding company, in certain circumstances, could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

The Federal Reserve also has authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices, or which constitute violations of laws or regulations. The Federal Reserve may impose civil money penalties for activities conducted by a bank holding company, its nonbanking subsidiaries, and officials of either on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1.0 million for each day the activity continues.

National Banks

National Banks are subject to regulation, periodic examination, enforcement authority and oversight by the OCC extending to all aspects of the bank's operations. OCC regulations govern permissible activities, capital requirements, dividend limitations, investments, loans and other matters. Deposits are insured by the FDIC for a maximum of \$250,000 per account ownership. For this protection, banks must pay a quarterly statutory assessment and comply with the rules and regulations of the FDIC. The assessment levied on a bank for deposit insurance varies, depending on the capital position of each bank, and other supervisory factors.

The FDIA provides that, in the event of the "liquidation or other resolution" of a bank, the claims of depositors of the bank, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the bank. If a bank fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors.

Areas regulated and monitored by the bank regulatory authorities include but are not limited to requirements concerning security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, establishment of branches, corporate reorganizations, transactions with affiliates, maintenance of books and records, and adequacy of staff training to carry out safe lending and deposit gathering practices.

Restrictions on Transactions with Affiliates and Loans to Insiders

Sections 23A and 23B of the Federal Reserve Act restrict transactions by banks with their affiliates. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with the bank. Generally, Sections 23A and 23B: (1) limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of that bank's capital stock and surplus (i.e., tangible capital); and (2) require that all such transactions be on terms substantially the same, or at least as favorable to the bank or subsidiary, as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions.

Section 23A also covers investment funds managed by an institution as an affiliate, as well as other procedural and substantive matters. In addition, Sections 23A and 23B include coverage of transactions with insiders relative to credit exposure arising from derivative transactions. An insured depository institution is also prohibited from purchasing or selling an asset to an executive officer, director, or principal shareholder (or any related interest of such a person) unless the transaction is on market terms, and, if the transaction exceeds 10% of the institution's capital, it is approved in advance by a majority of the disinterested directors.

A bank's authority to extend credit to executive officers, directors and greater than 10% shareholders, as well as entities controlled by such persons, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder by the Federal Reserve. Among other things, these loans must be made on terms substantially the same as those offered to unaffiliated individuals, the amount of loans a bank may make to these persons is based, in part, on the bank's capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

Anti-tying Restrictions

Bank holding companies and affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Capital Adequacy Requirements

Banks are subject to regulatory capital requirements imposed by the Federal Reserve and the FDIC. Until a bank holding company reaches \$3 billion in assets, the risk-based capital and leverage guidelines issued by the Federal Reserve are applied to bank holding companies on a nonconsolidated basis, unless the bank holding company is engaged in nonbank activities involving significant leverage, or it has a significant amount of outstanding debt held by the general public. Instead, a bank holding company with less than \$3 billion generally applies the risk-based capital and leverage capital guidelines on a bank only basis and must only meet a debt-to-equity ratio at the holding company level. The Federal Reserve risk-based capital guidelines apply directly to insured state banks, regardless of whether they are subsidiaries of a bank holding company. Both agencies'

requirements, which are substantially similar, establish minimum capital ratios in relation to assets, both on an aggregate basis as adjusted for credit risks and off-balance sheet exposures. The risk weights assigned to assets are based primarily on credit risks. Depending upon the riskiness of a particular asset, it is assigned to a risk category. Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, risk weights from 0% to 250% are applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Capital is then classified into three categories, Common Equity Tier 1, Additional Tier 1, and Tier 2. CET1 Capital is the sum of common stock instruments and related surplus net of treasury stock, retained earnings, AOCI and qualifying minority interests, less applicable regulatory adjustments and deductions that include AOCI (if an irrevocable option to neutralize AOCI is exercised). Mortgage-servicing assets, deferred tax assets, and investments in financial institutions are limited to an aggregate of 15% of CET1 and 10% of CET1 individually. Additional Tier 1 Capital includes noncumulative perpetual preferred stock, Tier 1 minority interests, grandfathered trust preferred securities, and Troubled Asset Relief Program instruments, less applicable regulatory adjustments and deductions. Tier 2 Capital includes subordinated debt and preferred stock not included in Additional Tier 1 Capital, total capital minority interests not included in Tier 1, and **ALL ACL** not exceeding 1.25% percent of risk-weighted assets, less applicable regulatory adjustments and deductions.

Smaller banks are subject to the following capital level threshold requirements:

Capital Category	Threshold Ratios			
	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	CET1 Risk-Based Capital Ratio	Tier 1 Leverage Capital Ratio
Well capitalized	10.00%	8%	6.5%	5%
Adequately capitalized	8%	6%	4.5%	4%
Undercapitalized	< 8%	< 6%	< 4.5%	< 4%
Significantly undercapitalized	< 6%	< 4%	< 3%	< 3%
Critically undercapitalized	Tangible Equity/Total Assets ≤ 2%			

Community banks are subject to the following minimum capital requirements.

Minimum CET1 ratio	4.5%
Capital conservation buffer	2.5%
Minimum tier 1 capital	6.0%
Minimum total capital	8.0%

Federal banking regulators have adopted regulations revising the risk-based capital guidelines to further ensure that the guidelines take adequate account of interest rate risk. Interest rate risk is the adverse effect that changes in market interest rates may have on its financial condition and is inherent to the business of banking. Under the regulations, when evaluating a bank's capital adequacy, the revised capital standards now explicitly include a bank's exposure to declines in the economic value of its capital due to changes in interest rates. The exposure of a bank's economic value generally represents the change in the present value of its assets, less the change in the value of its liabilities, plus the change in the value of its interest rate off-balance sheet contracts.

Federal bank regulatory agencies possess broad powers to take prompt corrective action as deemed appropriate for an insured depository institution and its holding company, based on the institution's capital levels. The extent of these powers depends upon whether the institution in question is considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Generally, as an institution is deemed to be less well capitalized, the scope and severity of the agencies' powers increase, ultimately permitting the agency to appoint a receiver for the institution. Business activities may also be influenced by an institution's capital classification. For instance, only a "well capitalized" depository institution may accept brokered deposits without prior regulatory approval and can engage in various expansion activities with prior notice, rather than prior regulatory approval. However, rapid growth, poor loan portfolio performance or poor earnings performance, or a combination of these factors, could change the capital position of the bank in a relatively short period of time. Failure to meet these capital requirements could subject the bank to prompt corrective action provisions of the FDIA, which may include filing with the appropriate bank regulatory authorities a plan describing the means and a schedule for achieving the minimum capital requirements. In addition, the Company would not be able to receive regulatory approval of any application that required consideration of capital adequacy, such as a branch or merger application, unless the Company could demonstrate a reasonable plan to meet the capital requirement within an acceptable period of time.

In 2019, the Federal banking regulatory agencies adopted a rule to simplify the methodology for measuring capital adequacy for smaller, uncomplicated banks. The 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 rule, a qualifying organization may elect to use the CBLR framework if its CBLR is greater than 9%.

Branching

National banks and state banks can establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state.

Deposit Insurance Assessments

The deposits of a bank are insured by the FDIC up to the limits under applicable law, which currently is set at \$250,000 for accounts under the same ownership. Banks are subject to deposit insurance premium assessments. The FDIC imposes a risk-based deposit premium assessment system. Under this system, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In the case of those institutions in the lowest risk category, the FDIC further determines its assessment rate based on certain specified financial ratios or, if applicable, long-term debt ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. Under the current system, premiums are assessed quarterly. The FDIC has published guidelines on the adjustment of assessment rates for certain institutions. The assessment base on which a bank's deposit insurance premiums is paid to the FDIC is now calculated based on its average consolidated total assets less its average equity. Congressional bills and other proposals could result in additional significant changes to the financial services and banking system, including, but not limited to, provisions for limitations on deposit insurance coverage or changing the timing and method financial institutions use to pay for deposit insurance. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank's business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business or change the Corporation's competitive landscape. Whether any future legislation will be enacted or additional regulations will be adopted, and how they might impact the Company, cannot be determined at this time.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a bank's federal regulatory agency. Deposits and certain claims for administrative expenses and employee compensation against insured depository institutions are afforded a priority over other general unsecured claims against the institution, including federal funds and letters of credit, in the liquidation or other resolution of that institution by any receiver appointed by federal authorities. These priority creditors include the FDIC.

Dividends

BayFirst's ability to pay cash dividends may depend almost entirely upon the aggregate amount of dividends that the Bank is able to pay and that the Bank is permitted to pay, by statutes or regulations, to the Company. Additionally, the FBCA provides that the Company may only pay dividends if the dividend payment would not render BayFirst insolvent, or cause BayFirst to be unable to meet obligations as they come due. These provisions could have the effect of limiting the ability to pay dividends.

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.

Capital Conservation Buffer (as a percentage of risk weighted assets)	Maximum Payout
	Ratio (as a % of the Previous Four Quarters of Net Income)
Greater than 2.5%	No payout limitation
Less than or equal to 2.5% and greater than 1.875%	60%
Less than or equal to 1.875% and greater than 1.25%	40%
Less than or equal to 1.25% and greater than 0.625%	20%
Less than or equal to 0.625%	0%

The Federal Reserve expects bank holding companies to serve as a source of strength to their subsidiary bank(s), which may require them to retain capital for investment in their subsidiary bank(s), rather than pay dividends to shareholders. As stated previously, the Bank may not pay dividends to BayFirst, if, after paying those dividends, the bank would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. Payment of dividends by the Bank may be restricted at any time at the discretion of its applicable regulatory authorities if they deem such dividends to constitute an unsafe and/or unsound banking practice.

Fiscal and Monetary Policies

The business and earnings of a bank may be significantly affected by the fiscal and monetary policies of the federal government and its agencies. Banks are particularly affected by the policies of the Federal Reserve, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve are: (i) conducting open market operations in United States government securities; (ii) changing the discount rates of borrowings of depository institutions; (iii) imposing or changing reserve requirements against depository institutions' deposits; and (iv) imposing or changing reserve requirements against certain borrowing by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. For that reason alone, the policies of the Federal Reserve have a material effect on the earnings of banks.

Other Laws

State usury and credit laws limit the amount of interest and other charges collected or contracted by a bank on loans. Bank loans are subject to federal laws applicable to credit transactions, such as the:

- *Federal Truth-In-Lending Act*, which governs disclosures of credit terms to consumer borrowers;
- *Community Reinvestment Act*, which requires financial institutions to meet their obligations to provide for the total credit needs of the communities they serve, including investing their assets in loans to low and moderate-income borrowers;

- *Home Mortgage Disclosure Act* requiring financial institutions to provide information to enable public officials to determine whether a financial institution is fulfilling its obligations to meet the housing needs of the community it serves;
- *Equal Credit Opportunity Act* prohibiting discrimination on the basis of race, creed, or other prohibitive factors in extending credit;
- *Real Estate Settlement Procedures Act*, which requires lenders to disclose certain information regarding the nature and cost of real estate settlements, and prohibits certain lending practices, as well as limits escrow account amounts in real estate transactions;
- *Fair Credit Reporting Act* governing the collection of consumer debts by collection agencies; and
- The rules and regulations of various federal agencies charged with the responsibility of implementing such federal laws.

Bank operations are also subject to the:

- *Gramm-Leach-Bliley Act of 1999*, which contains privacy provisions that requires the Bank to maintain privacy policies intended to safeguard consumer financial information, to disclose these policies to the customers, and allow customers to "opt out" of having their financial service providers disclose their confidential financial information to nonaffiliated third parties, subject to certain exceptions;
- *Right to Financial Privacy Act*, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- *Electronic Funds Transfer Act and Regulation E*, which govern automatic deposits to, and withdrawals from, deposit accounts and customers' rights and liabilities arising from the use of debit cards, automated teller machines, and other electronic banking services.

Anti-Money Laundering

Banks are subject to significant regulation and supervision relative to anti-money laundering:

- such regulation is broad and includes the extraterritorial jurisdiction of the United States;
- compliance and due diligence obligations are significant and may be costly;
- banks may be compelled to produce documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States; and

- banks enjoy a safe harbor from civil liability to customers for banks' activities under anti-money laundering laws and regulation.

The U.S. Treasury, in cooperation with the federal banking agencies, the SEC, the Commodity Futures Trading Commission, and the Department of Justice:

- requires customer identification and verification;
- imposes the money-laundering program requirement to the major financial services sectors, including insurance and unregistered investment companies, such as hedge funds; and
- facilitates and permits the sharing of information between law enforcement and financial institutions, as well as among financial institutions themselves.

Enforcement of the anti-money laundering laws and regulations is significant, on the part of both state and federal regulators.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act has had a broad impact on the financial services industry, imposing significant regulatory and compliance changes, including the designation of certain financial companies as systemically significant, the imposition of increased capital, leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act established a framework of authority to conduct systemic risk oversight within the financial system to be distributed among federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the OCC, and the FDIC. The following items provide a brief description of certain key provisions of the Dodd-Frank Act that affect banks:

- *Limitation on debit card transaction fees*. The amount a provider can charge for debit card transaction fees, commonly referred to as interchange fees, is now limited to \$0.21 plus 0.05% of the price of the transaction (plus \$0.01, if the provider has certain fraud prevention standards in place).
- *Mortgage loan origination and risk retention*. Additional regulatory requirements have been put in place that may affect the operations and result in increased compliance costs. For example, new standards have been created for mortgage loan originations on all lenders, including banks and thrifts, in an effort to require steps to verify a borrower's ability to repay. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans the lender sells or mortgage and other asset-backed securities that the securitizer issues. These applicable rules generally require a sponsor of this type of transaction to retain an economic interest equal to at least 5% percent of the aggregate credit risk of the assets collateralizing an issuance.
- *Expanded FDIC resolution authority*. While insured depository institutions have long been subject to the FDIC's resolution process, the Dodd-Frank Act created a new mechanism for the FDIC to conduct the orderly liquidation of certain "covered financial companies," including bank and thrift holding companies and systemically significant nonbank financial companies.
- *Consumer Financial Protection Bureau*. An independent CFPB was created within the Federal Reserve. The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank and thrift consumers.

- *Transactions with affiliates and insiders.* The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions."
- *Enhanced lending limits.* The Dodd-Frank Act strengthened the limits on a depository institution's credit exposure to one borrower.

Future Legislation

Various other legislative and regulatory initiatives, including proposals to overhaul the banking regulatory system are from time to time introduced in Congress and state legislatures, as well as regulatory agencies. The latest example was the passing of the Dodd-Frank Act. Future legislation regarding financial institutions may change banking statutes and the operating environment of the Company in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or results of operations of the Company. The nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

Available Information

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on the Company's website at www.bayfirstfinancial.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. These documents are also available on the SEC's website at www.sec.gov.

Item 1A. Risk Factors

Our business and results of operations are subject to numerous risks and uncertainties, many of which are beyond our control. The material risks and uncertainties that management believes affect the Company are described below. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also impair the Company's business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment. Some statements in the following risk factors constitute forward-looking statements. Please refer to "Cautionary Note Regarding Forward-Looking Statements" in Item 7 of this report.

Risk Factor Summary

Our business is subject to uncertainties and risks and our risk factors can be broadly summarized by the following:

- Our ability to grow the size and geographic scope of our loan generation, loan sale, and deposit gathering business, and the infrastructure needed to support it;
- Possible loan defaults, devaluation of collateral, adverse political, environmental, or economic events, and competition;
- Interest rates and available sources of liquidity;
- Our ability to raise capital and the effects of doing so on our shareholders;
- The potential that we are subject to fraud, incorrect judgments, or other bad acts of third parties;
- Laws, regulations, rules, and standards to which we are subject and the government agencies with which we interact;
- Recruitment, retention, development, performance, and potential bad acts of our key executives and other employees, as well as transactions with them and our directors;
- Dividend and other restrictions placed on us by our outstanding preferred stock, restrictions that may be imposed by future issuances of preferred stock, and our pledging of the stock in the Bank to secure a loan;
- Rapidly developing technology;
- Estimates used in certain valuations, including our **loan loss reserve**; **allowance for credit losses**; and
- Features of our stock, such as liquidity, dilution, the lack of preemptive rights, our SEC reporting status, and the concentration of ownership among our insiders.

Risk Factors Related to Our Business

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. Actions by the Federal Home Loan Bank of Atlanta or the Board of Governors of the Federal Reserve System may reduce our borrowing capacity. Additionally, we may not be able to attract deposits at competitive rates. Our inability to raise funds through traditional deposits, brokered deposits, borrowings, the sale of investment securities or loans, and other sources could negatively affect our liquidity or result in increased funding costs. Liquidity may also be adversely impacted by bank supervisory and regulatory authorities mandating changes in the composition of our balance sheet to asset classes that are less liquid.

Changes in interest rates affect our profitability and assets.

Our profitability depends to a large extent on the Bank's net interest income, which is the difference between income on interest-earning assets, such as loans and investment securities, and expenses on interest-bearing liabilities, such as deposits and borrowings. We are unable to predict changes in market interest rates, which are affected by many

factors beyond our control including inflation, economic recession, unemployment, money supply, domestic and international events, and changes in the United States and other financial markets.

At **December 31, 2022** December 31, 2023, our one-year interest rate sensitivity position was asset sensitive, such that a gradual increase in interest rates during the next twelve months would have a positive impact on our net interest income. Our results of operations are affected by changes in interest rates and our ability to manage this risk. The difference between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities may be affected by changes in market interest rates, changes in relationships between interest rate indices, and changes in the relationships between long-term and short-term market interest rates. Our net interest income may be reduced if: (i) more interest-earning assets than interest-bearing liabilities reprice or mature during a time when interest rates are declining; or (ii) more interest-bearing liabilities than interest-earning assets reprice or mature during a time when interest rates are rising. In addition, the mix of assets and liabilities could change as varying levels of market interest rates might present our customer base with more attractive options.

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.

We may be unable to continue to produce the volume of loans necessary to support our SBA and other government guaranteed lending business.

Our business strategy places a significant emphasis on SBA and other government guaranteed lending. In order to successfully implement this strategy, we must originate and fund a substantial dollar amount of loans. To do so, we must identify qualified and interested borrowers and have sufficient capital and liquidity to support and fund such loans. If we are not successful in implementing this strategy, our income and results of operations may be adversely affected.

We depend on the sale of both the guaranteed and unguaranteed portions of our government guaranteed loans, but also face risks relating to the retained portions of unguaranteed loans.

Our strategy historically has been, and may continue to be, to sell both the guaranteed balances of SBA and other government guaranteed loans, as well as a percentage of the unguaranteed portions of such loans, within legally allowable limits. A material portion of our net income and profitability depended, and may continue to depend, on gains on sales of the guaranteed portions of the government guaranteed loans that we originate. We also from time to time pursue the sales of unguaranteed portions of such loans, which provide us with additional liquidity and capital capacity to permit us to make additional loans when needed. Our ability to sell both the guaranteed and unguaranteed portions of these loans is dependent upon our ability to identify purchasers with the demand and capacity to buy them, the attractiveness of the loans, our underwriting quality, and other factors. Our ability to continue to make new loans and hold them in our loan portfolio will be limited by our current capital and liquidity positions. To the extent we retain the unguaranteed portion of these loans in our portfolio, we may be required to make significant provisions to our ACL. The Bank adopted ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments effective January 1, 2023. This standard **requires** financial institutions to determine periodic estimates of lifetime expected credit losses on financial instruments and other commitments to extend credit. This changed the current method of providing allowances for credit losses that are **probable**, which may require us to increase our allowance for loan losses. **probable**.

Our loan origination processes present heightened opportunities for borrower or referral fraud.

The loans we originate through our technology partners and referral sources are obtained primarily through an online application process. We do not generally meet with the borrowers in person. Our referral sources also are involved in assisting the borrowers with completing their loan applications. Therefore, it is difficult for us to definitively ascertain or confirm a borrower's identity, structure, creditworthiness, or veracity in completing the loan application process. If a borrower or a referral source intentionally, or unintentionally, provides us with incorrect information that we rely on in underwriting a loan, we could be subject to increased credit risk for that loan. Such increased risk could result in increased loan losses or heightened provisions to our ACL, either of which would adversely affect our credit quality and net income. We may also become subject to heightened regulatory scrutiny for making loans to such borrowers and may be required to dedicate time and other resources to addressing regulatory concerns.

Our loan referral sources operate independently from us and may take actions for which we may be held responsible.

Our referral sources for SBA and other government guaranteed loans operate independently from us and have the initial interactions with many loan applicants and borrowers. As part of those interactions, our referral sources may take actions which violate laws, regulations, or our policies. These may include, among other things, charging impermissible fees, failing to provide or properly complete required documentation or disclosures, making false or misleading statements, or encouraging an applicant to make misrepresentations. In certain instances, the Bank may be held responsible by an applicant or a government agency for such actions. If that were to happen, the Bank may be required to pay restitution or fines, be subject to regulatory enforcement actions, or lose certain statuses with the SBA or other government agencies.

We rely heavily on technology partners and other referral sources in our SBA government guaranteed loan origination process.

As part of our **SBA** government guaranteed lending strategy, we use the services of technology partners and other referral sources. These arrangements allow us to originate loans throughout the U.S. via the internet. We do not have an exclusivity arrangement with any referral source. Therefore, we cannot be assured that we will be able to originate and close or maintain any specific level of **SBA** government guaranteed loans through such sources in the future. In addition, our technology partners are subject to online commerce risks generally, including hacking and use of the site by persons using fraudulent credentials. Should we not continue to generate a substantial volume of loan business through our use of referral sources, or if they experience operational interruptions, or direct loans to other lenders, our **SBA** government guaranteed lending may be materially reduced, which could reduce our net income and our asset growth.

Our operations are growing at a rapid pace and our training programs and operational protocols may lag behind our growth.

Our branch network and **SBA** government guaranteed lending operations are expanding at a rapid pace. As a result, we may not be able to provide comprehensive or timely training to staff.

We may also not develop appropriate operational protocols as we expand our products and services. If we fail to do so, our employees may not have a set of standards and expectations pursuant to which they perform their assigned duties. If we are not able to fully and promptly provide training to our employees, or develop appropriate protocols, our employees may be susceptible to mistakes, fail to recognize fraud or other weaknesses in our operations, or fail to recognize or mitigate other risks.

The COVID-19 pandemic has disrupted economic conditions, the financial and labor markets and workplace operating environments and the effects of such disruptions will depend on future developments, which are highly uncertain and are difficult to predict.

While COVID-19 pandemic conditions have improved, past and potential future government actions taken to reduce the spread of the virus have been weighing on the macroeconomic environment. As a result, lingering economic uncertainty and reduced economic activity remains. In addition, new virus strains could adversely impact our borrowers', customers', and business partners' workforces and operations. As a result, we may experience losses due to operational factors impacting us or our borrowers, employees, customers, or business partners.

The effects of the COVID-19 pandemic have varied significantly by region, and the extent of the effects of the pandemic on the U.S. and global economies, labor markets and financial markets are likely to continue to change. Future developments will be highly uncertain and cannot be predicted, including the effectiveness of post-pandemic remote working arrangements, third party providers' abilities to continue to support our operations, and any further actions taken by governmental authorities and other third parties. Accordingly, the pandemic and related dynamics could continue to materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels. Further, there are no comparable recent events to provide guidance as to the effect a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change.

Changes in economic and political conditions could adversely affect our earnings through declines in deposits, loan demand, the ability of our customers to repay loans and the value of the collateral securing our loans.

Our success depends to a significant extent upon local and national economic and political conditions, as well as governmental fiscal and monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, fiscal and monetary policy, an increasing federal government budget deficit, slowing gross domestic product, tariffs, a U.S. withdrawal from or significant renegotiation of trade agreements, trade wars, and other factors beyond our control may adversely affect our deposit levels and composition, the quality of investment securities available for purchase, demand for loans, the ability of our borrowers to repay their loans, and the value of the collateral securing loans. Recent political developments in Russia, Ukraine, the Middle East, and Ukraine South America may result in substantial changes in economic and political conditions for the U.S. and the remainder of the world. Disruptions in U.S. and global financial markets, and changes in oil production and supply in the Middle East those and Russia, other areas, also affect the economy and stock prices in the U.S., which can affect our earnings, capital, as well as the ability of our customers to repay loans.

A shutdown of the Federal government would likely result in us being temporarily unable to make SBA and other government guaranteed loans.

If the Federal government experiences a shutdown, it is likely that the SBA, and other agencies which guaranty some of the loans we make, will be unable to process those loans and sell those loans. As a result, our ability to make those loans would be delayed. During such a delay, it is possible that prospective borrowers could obtain financing from other sources or elect not to borrow. Any delay in closing these types of loans, or losing the opportunity to make originate or sell them, could result in decreased fee and interest income, and which would adversely affect our financial performance.

Changes in the laws or regulations governing our SBA and other government guaranteed lending activities and our mortgage lending business may adversely affect our ability to operate them profitably.

Our SBA and other government lending programs and our mortgage lending activities are subject to laws and regulations administered by government agencies such as the SBA, the United States Department of Housing and Urban Development, and the United States Department of Agriculture. If any of these laws or regulations change, or the policies and practices of these agencies change, such changes may impact our ability to offer such products in a profitable manner, or at all. If we are unable to profitably offer these products, our net income will likely decrease and our financial condition and performance will likely deteriorate.

We may not be able to retain or grow our core deposit base, which could adversely impact our funding costs.

We rely on client deposits as our primary source of funding for our lending activities. Our future growth will largely depend on our ability to retain and grow our core deposit base. Our retention and acquisition of customer deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside of our control, such as increasing competitive pressures for deposits, changes in interest rates and returns on other investment classes, client perceptions of our financial health and general reputation, or a loss of confidence by clients in us or the banking sector generally. Such factors could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current client deposits or attract additional deposits. Additionally, any such loss of funds could result in lower loan originations or the need to sell investment securities at a loss, which could have a material adverse effect on our business, financial condition and results of operations.

Unrealized losses in the Bank's investment portfolio could affect liquidity.

As market interest rates increased during 2022, increase, the unrealized losses on the Bank's investment portfolio also increased. increase. As market interest rates decrease, the unrealized losses on the Bank's investment portfolio also decrease. The increase or decrease in unrealized losses is reflected in Accumulated Other Comprehensive Income ("AOCI") on the balance sheet and increases or reduces book capital, and therefore, the tangible common equity ratio. Unrealized losses do not affect regulatory capital ratios.

The Bank's access to liquidity sources could be affected by unrealized losses if investments must be sold at a loss, tangible capital ratios continue to decline from an increase in unrealized losses or realized credit losses, the FHLB or other sources reduce capacity or bank regulators impose restrictions on the Bank such as a limit on interest rates it may pay on deposits or its ability to access brokered deposits.

We have expanded into new markets with which we have less familiarity with than our historic markets.

We intend to continue to expand the geographic location and number of our Florida banking centers and the national scope of our SBA and USDA loan origination efforts when we identify attractive opportunities. Our senior management and Board of Directors have less familiarity with these out of state markets than they do with and may not fully understand the nuances of our new Florida markets. We are dependent on the expertise and actions of the bankers we have hired to be successful in these markets.

We are dependent on our management team and any of their departure, or subsequent employment with a competitor could adversely affect our operations.

Our growth and development are particularly dependent upon the personal efforts and abilities of our executive officers and other qualified personnel. The loss or unavailability of such officers or employees could have a material adverse effect on our operations and prospects. Such adverse effect may be magnified if any such officer or employee were to become employed with a competitor of ours. In early 2023, On December 31, 2023, our Chief Executive Officer Anthony Leo announced his retirement effective at the end of the year. retired. Our Boards have

selected the current Bank President Thomas Zernick to become Chief

Executive Officer of the Company and Robin Oliver to become President and COO of the Company. If this transition is not effective or if we encounter problems in implementing it, our performance may suffer.

We have pledged the outstanding shares of the Bank to secure a loan, and if we cannot repay the loan when due, the lender may foreclose on the loan and take ownership of the Bank.

We have pledged 100% of the outstanding shares of the Bank's capital stock to secure a term loan with another financial institution with a balance of \$2.8 million \$2.4 million as of December 31, 2022 December 31, 2023. If we do not have cash available at BayFirst or we are unable to fund dividends from the Bank to BayFirst, we may not be able to make principal or interest payments due on the loan. If we cannot repay or refinance the loan on or prior to maturity, the lender may foreclose on the pledged stock and take ownership of the Bank. In which case, we may not have any source of revenue and it would be unlikely that we would continue to operate. The loan currently matures on March 10, 2029.

We engage in transactions with our directors and their related interests, which creates the potential for conflicts of interest.

Directors Mark S. Berset and Derek S. Berset are owners of an insurance agency from which the Bank purchases insurance. From time to time the Bank makes loans to, and accepts deposits from, officers and directors and their affiliates. Further, from time to time, in the ordinary course of business, the Company has entered into transactions with certain members of its Board of Directors for various professional services.

Such insider transactions present reputational and corporate governance risks to BayFirst and the Bank. Insider transactions often draw the scrutiny of regulators and shareholders. If they were to identify terms of the transactions, or aspects of the process through which we entered into them, that they deemed to be inappropriately unfavorable to BayFirst or the Bank, such regulators or shareholders might take enforcement or legal action against us. Similarly, insider transactions may present an opportunity for taking advantage of BayFirst or the Bank. If any such events were to occur, BayFirst and the Bank may incur expenses or become engaged in time consuming enforcement or legal processes that could negatively affect our performance.

We may not be able to collect on the guarantees of our SBA or other government guaranteed loans if borrowers default.

In order to collect on their guarantees, we must strictly comply with the standards set by the SBA or other government agencies. If our government guaranteed loans or our servicing and administration of them do not comply with such standards, we may not be able to collect on their guarantees in the event of default. In such case, our asset quality, earnings, and growth prospects could be adversely affected.

Our Internet-based systems and online commerce activities are subject to security threats that could adversely affect our business.

Third party, or internal, systems and networks may fail to operate properly or become disabled due to deliberate attacks or unintentional events. Our operations are vulnerable to disruptions from human error, natural disasters, power loss, computer viruses, spam attacks, denial of service attacks, unauthorized access, and other unforeseen events. Undiscovered data corruption could render our customer information inaccurate. These events may obstruct our ability to provide services, underwrite loans, and process transactions. Any such incident could put confidential customer information at risk, which may result in significant liability to us, subject us to additional regulatory scrutiny, damage our reputation, result in a loss of customers, cause us to incur significant expense to remediate any damage and inhibit current and potential customers from using our online banking services, any or all of which could have a material adverse effect on our results of operations and financial condition.

A failure or breach, including cyberattacks, of our computer systems or other technologies could disrupt our business, result in the disclosure of confidential information, and create significant financial and legal exposure.

There is no assurance that our computer systems and other technologies will provide absolute security. In the case of a failure or breach of such systems, their functionality may be disabled. In addition, the confidentiality and integrity of our and our clients' information may be compromised. Further, to access our products and services, our clients may use computers and mobile devices that are beyond our security systems. Our clients' or our websites or systems may be subject to attacks intended to obtain unauthorized access to confidential information, destroy data, or disable or sabotage services, often through the introduction of computer viruses or malware, cyberattacks, and other means.

Furthermore, the methods of cyberattacks change frequently and may not be recognized until or after launch. Therefore, we may not be able to anticipate or implement effective preventive measures against all possible security breaches. Any

successful cyberattack or other security breach may result in the misappropriation, loss, or other unauthorized disclosure of confidential customer information. Such an event may also compromise our ability to function and could severely damage our reputation, erode confidence in the security of our systems, products, and services, expose us to the risk of litigation and liability, and disrupt our operations. Any successful cyberattack may subject us to regulatory investigations, litigation or enforcement, or require the payment of

regulatory penalties or require us to undertake costly remediation efforts. All or any of these could adversely affect our business, financial condition, or results of operations and damage our reputation.

The valuation of our SBA and USDA related servicing rights is based on estimates and subject to fluctuation based on market conditions and other factors that are beyond our control.

The fair value of our SBA and USDA servicing rights is estimated by a third party based upon projections of expected future cash flows generated by the loans we service, historical prepayment rates, future prepayment estimates, portfolio characteristics, interest rates based on interest rate yield curves, volatility, market demand for servicing rights, and other factors. While this evaluation process uses historical and other objective information, the valuation of our servicing rights is ultimately an estimate based on our experience, judgment, and expectations regarding our servicing portfolio and the broader market. This is an inherently uncertain process and the value of our servicing rights may be adversely impacted by factors that are beyond our control, which may in turn cause us to record valuation allowances which could have a material adverse effect on our business, results of operations, and financial condition.

Changes in business and economic conditions, in particular those of the Florida markets in which we operate, could lead to lower asset quality and decreased earnings.

Unlike larger national or regional banks that are more geographically diversified, our business and earnings are closely tied to general business and economic conditions in our market area. The local economy is heavily influenced by tourism, real estate, and other service-based industries. Factors that could affect the local economy include declines in tourism, higher energy costs, reduced consumer or corporate spending, natural disasters or adverse weather and a significant decline in real estate values. A sustained economic downturn could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenue and lower earnings.

Most expansion activities require approval of our regulators, which we may not be able to obtain, or that may impose conditions that we find to be unacceptable.

Branch openings, and other expansion activities, generally require the approval of our regulators. We may not be able to obtain such approvals if our regulators do not believe we are financially or managerially strong enough to integrate or manage such activities. In addition, our regulators consider our capital, liquidity, profitability, regulatory compliance, including with the Community Reinvestment Act and the Bank Secrecy Act, and levels of goodwill and intangibles when considering acquisition and expansion proposals. Our regulators may also impose conditions in approvals that we find to be unacceptable, prohibitive, or otherwise undesirable. In any of those instances, we may be unable or unwilling to consummate a transaction or undertake an expansionary activity.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material penalties and have negative effects on our business.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act, and other fair lending laws and regulations impose obligations and nondiscriminatory lending requirements on financial institutions. The banking regulators and the U.S. Department of Justice are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on branch expansion, merger and acquisition activity, and restrictions on entering new business lines. Private parties may also have the ability to challenge our performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations, and future prospects.

We may be required to make increases in our loan credit loss reserve and to charge off loans in the future, which could adversely affect our results of operations.

The determination of the appropriate level of the loan credit loss reserve involves a high degree of subjectivity and judgment and requires us to make significant estimates of current credit risks, which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors within and outside of our control, may require an increase in the loan credit loss reserve. In addition, our regulators periodically review our loan credit loss reserve and may request an increase in the provision for loan credit losses or the recognition of loan charge-offs, based on judgments different than those of management. Furthermore, the Financial Accounting Standards Board has issued a current expected credit loss rule, which will change our accounting for losses by requiring us to record, at the time of origination, credit losses expected throughout the life of loans, held-to-maturity investment securities, and certain other assets and off-balance sheet credit exposures as opposed to the current practice of recording losses when it is probable that a loss event has occurred. We implemented this new standard on January 1, 2023 and we will recognize a one-time adjustment to the allowance. We have not yet determined the magnitude allowance of such adjustment or the overall impact on financial results but expect it to be between \$3 million and \$5 million \$3.1 million. Also, if charge-offs in future periods exceed the allowance, we will need additional provisions to increase the allowance, which would result in a decrease in net income and capital, and could have a material adverse effect on our financial condition and results of operations.

If real estate values in our markets decline, we could experience losses upon foreclosure of the loan or sale of the real estate.

A material portion of our loan portfolio consists of mortgages secured by real estate located in Pinellas, Pasco, Hillsborough, Manatee, and Sarasota Counties, Florida. Real estate values in our market may decline due to changes in national, regional or local economic conditions; fluctuations in interest rates and the availability of loans to potential purchasers; changes in the tax laws and other governmental statutes, regulations and policies; and acts of nature. If real estate values decline in our market, the value of the real estate collateral securing our loans will likely be reduced. Any reduction in the value of the collateral securing our loans could reduce the amount of money we could realize on the sale of any collateral and thereby adversely affect our financial performance.

Hurricanes or other adverse weather events, as well as climate change, could negatively affect our local economies or disrupt our operations, which could have an adverse effect on our business and results of operations.

Our market areas in Florida are susceptible to hurricanes, tropical storms, and related flooding and wind damage. Such weather events can disrupt operations, result in damage to properties and negatively affect the local economies in the markets where we operate. Such weather events could result in a decline in loan originations, a decline in the value, or destruction of properties securing our loans and an increase in delinquencies, foreclosures, or loan credit losses. Our business and results of operations may be adversely affected by these and other negative effects of future hurricanes, tropical storms, related flooding and wind damage and other similar weather events. Climate change may be increasing the severity and frequency of adverse weather conditions, making the impact from these types of natural disasters on us or customers worse.

Further, concerns over the long-term impacts of climate change have led and may continue to lead to governmental efforts around the world to mitigate those impacts. Investors, consumers, and businesses also may change their behavior on their own as a result of these concerns. The State of Florida could be disproportionately impacted by long-term climate changes. We and our customers may face cost increases, asset value reductions, and changes in supply or demand for products and services resulting from new laws, regulations, and changing consumer and investor preferences regarding responses to climate change.

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.

Public health emergencies could hurt our business.

The COVID pandemic and the governmental and public response disrupted day-to-day life and the normal functioning of the domestic and global economy. Future developments or new emergencies will be highly uncertain and cannot be predicted, including the effectiveness of remote working arrangements, third party providers' abilities to continue to support our and our customer's operations, and any further actions taken by governmental authorities and other third parties. Accordingly, public health crises could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels. Further, it is impossible to effectively predict future events relative to the nature, duration, or severity of recent events. Therefore, we cannot provide guidance as to the effect a global pandemic or other health crisis may have on us, Florida, the remainder of the U.S., or the global economy.

Our loan portfolio includes a material amount of commercial real estate and commercial and industrial loans.

The credit risk associated with commercial real estate loans and C&I loans is a result of several factors, including the concentration of principal in a limited number of loans and to borrowers in similar lines of business, the size of loan balances, the effects of general economic conditions on the demand for C&I products and services and income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Repayment of commercial real estate and C&I loans in some cases is dependent upon the successful operation of the related business or the development or sale of the related real estate. If the actual or potential cash flow from a business or property is reduced, the borrower's ability to repay the loan may be impaired. As a result, repayment of these loans may, to a greater extent than other types of loans, be subject to adverse conditions in the real estate market or economy. In addition, if the Bank forecloses on the collateral securing C&I loans, the potential market for selling such collateral may be limited to persons already engaged in a similar business. That may result in the Bank recovering an amount for such collateral less than the amount of the loan or taking an extended time to liquidate such collateral.

Our use of appraisals in deciding whether to make a loan secured by real property or how to value the loan in the future may not accurately describe the net value of the collateral that we can realize.

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may fluctuate over relatively short periods of time, especially in times of heightened economic uncertainty, this estimate might not accurately describe the net value of the collateral after the loan has been closed. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property. In addition, we rely on appraisals and other valuations to establish the value of foreclosed real estate and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our foreclosed upon real estate, and our **loan** credit loss reserve may not accurately reflect loan impairments. Inaccurate valuations of properties could materially adversely affect our business, results of operations and financial condition.

We operate in a highly competitive industry and market area.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources than we do. Such competitors primarily include Internet banks and national, regional and community banks within the various markets we serve. We also face competition from many other types of financial institutions, including, without limitation, savings and loan institutions, credit unions, mortgage companies, other finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes, as well as continued consolidation. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Our success depends on our ability to compete successfully in our market area, and there is no guarantee that we will be able to do so.

We may face risks with respect to future expansion.

We may consider and enter into new lines of business or offer new products or services. We may acquire all or parts of other institutions and we may engage in additional *de novo* branch expansion. Expansion involves a number of risks, including the costs associated with identifying and evaluating potential acquisitions and merger partners, inaccurate estimates and judgments regarding credit, operations, management and market risks of the target institution, our ability to finance expansion, possible dilution to our existing shareholders, the diversion of our management's attention to the

negotiation of a transaction, the integration of the operations and personnel of combining businesses, and the possibility of unknown or contingent liabilities.

We may need additional capital in the future, but such capital may not be available when needed.

We may need to obtain additional debt or equity financing to fund future growth and meet our capital needs. We cannot guarantee that such financing will be available to us on acceptable terms or at all. If our financial performance is unsatisfactory or if negative economic events or disruptions in the capital markets occur, it may not be possible for us to find sources of sufficient capital for our business operations. If we are unable to obtain future financing, we may not have the resources available to fund our planned growth.

We are subject to government regulation and monetary policy that could constrain our growth and profitability.

We are subject to extensive federal government supervision and regulations that impose substantial limitations with respect to lending activities, purchases of investment securities, the payment of dividends, and many other aspects of our business. Many of these regulations are intended to protect depositors, the public, and the FDIC, but not our shareholders. The banking industry is heavily regulated. We are subject to examinations, supervision and comprehensive regulation by various federal and state agencies. Our compliance with these regulations is costly and restricts certain activities. The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies, and leasing companies. Federal economic and monetary policy may also affect our ability to attract deposits, make loans, and achieve our planned operating results. New laws and regulations may increase costs of regulatory compliance. Further, additional legislation and regulations that could significantly affect our power and authority, and operations may be enacted or adopted in the future which could have a material adverse effect on our financial condition and results of operations.

Legislation and regulatory proposals enacted in response to market and economic conditions may materially adversely affect our business and results of operations.

Changes in the laws, regulations, and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for our competitors. For example, the Dodd-Frank Act in particular represented a significant overhaul of many aspects of the regulation of the financial services industry, some of which have yet to be implemented. In addition, because regulation of financial institutions changes regularly and is the subject of constant legislative debate, we cannot forecast how federal or state regulation of financial institutions may change in the future and impact our operations. Recent and forthcoming changes to banking regulations may impact the profitability of our business activities, require changes to some of our business practices, or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. It may also require us to hold higher levels of regulatory capital and/or liquidity and it may cause us to adjust our business strategy and limit our future business opportunities. We cannot predict the effects of future legislation and new or revised regulations on us, our competitors, or on the financial markets and economy, although they may significantly increase costs and impede the efficiency of our internal business processes.

Changes in local, national, or global economic and political conditions could adversely affect results of operations by affecting deposits and loan demand, credit quality and our relationships with vendors.

Our success depends to a significant extent upon local, national, and, to a lesser extent, global economic and political conditions. Conditions such as inflation, recession, unemployment, changes in interest rates, fiscal and monetary policy, government budget deficits, slowing gross domestic product, tariffs, a U.S. withdrawal from or significant renegotiation of trade agreements, military hostilities, terrorism, trade wars, economic sanctions, and other factors beyond our control may adversely affect our deposit levels and composition, the quality of investment securities in our portfolio or available for purchase, demand for loans, the ability of our borrowers to repay their loans, the value of the collateral securing loans, and the ability of our vendors to perform according to contractual requirements. Recent political and military developments in Russia, Ukraine, and elsewhere may result in substantial changes in economic and political conditions for the U.S. and the remainder of the world. Disruptions in U.S. and global financial markets, and changes in global oil production and supply in the Middle East and Russia, also affect the economy and stock prices in the U.S., which can affect our earnings, capital, the ability of our customers to repay loans, and other aspects of our operations.

Inflation could negatively impact our business and our profitability.

Significant or prolonged inflation may impact our profitability by negatively impacting our fixed costs and expenses, including increasing funding costs and executive and other employee compensation expense, and negatively impacting the demand for banking products and services. Additionally, inflation may lead to a decrease in client purchasing power and negatively affect the need or demand for loans or deposit accounts. If significant inflation continues, our business could also be negatively affected by, among other things, increased loan default and losses. If we experience such effects of inflation, our results of operations could suffer.

ESG risks could adversely affect our reputation and shareholder, employee, client and third party relationships.

As a publicly traded company, we face increasing public scrutiny related to ESG activities. If we fail to act responsibly in areas, such as DEI, environmental stewardship, human capital management, support for our local communities, corporate governance, and transparency, or fail to consider ESG factors in our business operations, our reputation may be adversely affected. Furthermore, as a result of the diversity of our clients and business partners, we may face negative publicity because of the identity of our clients or business partners and the public's view of those entities. Additionally, we may face pressure to not do business in certain industries that are viewed as harmful to the environment or are otherwise negatively perceived, which could impact our growth. If we, or our clients or business partners, become the subject of such negative publicity, our ability to attract and retain clients, employees, and business partners, may be negatively impacted, which could affect our results of operation or growth prospects.

Additionally, investors and shareholder advocates are increasing their emphasis on how corporations address ESG issues in their business strategies.

An economic downturn could have a material adverse effect on our capital, financial condition, results of operations, and future growth.

We monitor market conditions and economic factors throughout, and beyond, our geographic markets. If economic conditions were to worsen nationally, regionally, or locally, we could experience a decline in credit quality and loan and deposit demand. Such declines could negatively affect our business and have a material adverse effect on our capital,

financial condition, results of operations, and future growth. In addition, international economic and political uncertainty could impact the U.S. financial markets by potentially suppressing stock prices, including ours, and adding to overall market volatility, which could adversely affect our business. The effects of any economic downturn on our business could continue for many years after the downturn is considered to have ended.

We may incur losses if asset values decline, including due to changes in interest rates and prepayment speeds.

We have a large portfolio of financial instruments, including loans and loan commitments, debt securities, and certain other assets and liabilities that we measure at fair value that are subject to valuation and impairment assessments. We determine these values based on applicable accounting guidance. For financial instruments measured at fair value, this requires us to base fair value on exit price and to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurements. The fair values of financial instruments include adjustments for market liquidity, credit quality, and other transaction-specific factors, if appropriate. Gains or losses on these instruments can have a direct impact on our results of operations. Increases in interest rates or changes in spreads may adversely impact the fair value of loans or debt securities and, accordingly, for debt securities classified as available for sale, may adversely affect accumulated other comprehensive income and, thus, capital levels. These market factors also may adversely impact the value of debt securities we hold to meet regulatory liquidity requirements. Decreases in interest rates may increase prepayments of certain assets, and, therefore, may adversely affect net interest income.

Technological changes, including online and mobile banking, have the potential of disrupting our business model, and we may have fewer resources than many competitors to invest in technological improvements.

The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology-driven products and services, including mobile and online banking services. Changes in customer behaviors have increased the need to offer these options to our customers. In addition to serving clients better, the effective use of technology may increase efficiency and may enable financial institutions to reduce costs. Our future success will depend, in part, upon our ability to invest in and use technology to provide products and services that provide convenience to customers and to create additional efficiencies in our operations. We may need to make significant additional capital investments in technology in the future, and we may not be able to effectively implement new technology-driven products and services in a timely manner in response to changes in customer behaviors, thus adversely impacting our operations. Many of our competitors have substantially greater resources to invest in technological improvements and banking regulators may permit emerging technology companies to engage in activities previously reserved to traditional commercial banks. Such competition could adversely affect our performance and results of operations.

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and statements of operations. Future changes in financial accounting and reporting standards could require us to apply a new or revised standard retroactively, which could result in a material adverse effect on our financial condition or could even require us to restate prior period financial statements.

We face risks related to our operational, technological, and organizational infrastructure.

Our ability to grow and compete is dependent on our ability to build or acquire the necessary operational and technological infrastructure and to manage the cost of that infrastructure while we expand. Similar to other financial institutions, our operational risk can manifest itself in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or outside persons, and exposure to external events. We are dependent on our operational infrastructure to help manage these risks. In addition, we are heavily dependent on the strength and capability of our technology systems, which we use both to interface with our customers and to manage our internal financial and other systems. Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones depends on the functionality of our technology systems.

Risks Related to Our Securities

A vibrant public trading market for our common stock has not and may not develop, which may hinder your ability to sell the common stock and may lower the market price of the stock.

Our common stock is quoted and traded on Nasdaq under the symbol "BAFN." However, this listing has not yet resulted in a substantially liquid market for our common stock. We cannot be certain if or when such a market may develop. Accordingly, investors should consider the potential illiquid and long-term nature of an investment in our common stock. You may, therefore, be required to bear the risks of this investment for an indefinite period of time.

Shareholders may face dilution resulting from the issuance of common stock in the future.

We may issue common stock without shareholder approval, up to the number of authorized shares set forth in our Articles of Incorporation. Our Board may determine, from time to time, a need to obtain additional capital through the issuance of additional shares of common stock or other securities. There can be no assurance that such shares will be issued at prices or on terms better than or equal to historical prices or terms. The issuance of any additional shares of common stock by us in the future may result in a reduction of the book value or market price, if any, of the then-outstanding common stock. Issuance of additional shares of common stock will reduce the proportionate ownership and voting power of our existing shareholders.

The price of our common stock could be volatile.

The market price of our common stock may be volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include, among other things: variations in our quarterly results of operations; recommendations by securities analysts; performance of other companies that investors deem comparable to us; economic factors unrelated to our performance; general market conditions; and changes in government regulations. In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition, or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

An investment in our common stock is not an insured deposit.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC. Investment in our common stock is inherently risky for the reasons described herein, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

Owning our stock will not give you the right to participate in any future offerings of our capital stock and your ownership could be diluted.

As a shareholder, you are not automatically entitled to purchase additional shares of common stock in future issuances of our common stock; therefore, you may not be able to maintain your current percentage of ownership in BayFirst. If we decide to issue additional shares of common stock or conduct an additional offering of stock, your ownership in BayFirst could be diluted and your potential share of future profits may be reduced.

Management has broad discretion concerning the use of our capital.

We use our capital to maintain liquidity and to continue to support the growth of the Bank. This growth may include the opening of branch offices, increasing the size and volume of loans, or other such activities that may require additional capital. Capital may also be used to service our outstanding debt. Our management may determine that it is in the best interest of the Company or the Bank to apply our capital in a manner that is inconsistent with a shareholder's wishes. Failure to use such funds effectively might harm your investment.

If equity research analysts do not publish research or reports about our business, or if they do publish such reports but issue unfavorable commentary or downgrade our common stock, the price and trading volume of our common stock could decline.

The trading market for our common stock could be affected by whether and to what extent equity research analysts publish research or reports about us and our business. We cannot predict at this time whether any research analysts will cover us and our common stock or whether they will publish research and reports on us. The price of our stock could decline if one or more securities analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease

publishing reports about us. If any of the analysts who elect to cover us downgrade their recommendation with respect to our common stock, our stock price could decline rapidly. If any of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our common stock price or trading volume to decline and our common stock to be less liquid.

Our Board of Directors owns a significant percentage of our shares and will be able to make decisions to which you may be opposed.

As of **December 31, 2022** December 31, 2023, BayFirst's directors and named executive officers as a group owned approximately **14.98%** **14.42%** of our outstanding common stock. In addition, the directors and named executive officers have stock options to acquire shares of common stock, which, if fully exercised within sixty days of **December 31, 2022** December 31, 2023, would have resulted in them owning approximately **19.41%** **18.83%** of our outstanding common stock. Our directors and executive officers are expected to exert a significant influence on the election of Board members and on the direction of the Company. This influence could negatively affect the price of our shares or be inconsistent with other shareholders' desires.

We have outstanding preferred stock and our Board may authorize the issuance of additional series of preferred stock.

We have 1,000,000 shares of authorized preferred stock, no par value. Of those, **10,000** shares have been designated as Series A Preferred Stock, in three classes are issued and outstanding. The terms of which 6,395 those shares were outstanding as currently require us to pay quarterly dividends of December 31, 2022, with a \$1,000 liquidation preference and a 9%\$385 thousand (subject to increase to 11% if we have do not redeemed the shares by the tenth anniversary of their issuance in 2019) per annum quarterly dividend. We also have 20,000 authorized shares of Series B Convertible Preferred Stock, of which 3,210 shares were outstanding as of December 31, 2022, with a \$1,000 liquidation preference timely redeem them) and an 8% per annum dividend (subject to increase to 9% prohibit us from paying common stock dividends if we have not redeemed the shares by the tenth anniversary are delinquent in payment of their issuance in 2020 and 2021), which is otherwise on a parity with our Series A Preferred Stock as to priority of dividends and liquidation preference. preferred stock dividends. Additionally, our Articles of Incorporation provide that our Board of Directors may authorize additional series of preferred stock without shareholder approval. Accordingly, the issuance of new shares of preferred stock may adversely affect the rights of the holders of shares of our common stock.

BayFirst has outstanding debt and either BayFirst or the Bank may incur additional debt.

BayFirst has outstanding debt and either BayFirst or the Bank may incur additional debt. At **December 31, 2022** December 31, 2023, BayFirst had a **\$2.84 million** **\$2.39 million** term loan and **\$5.99 million** **\$5.95 million** in subordinated debt. BayFirst's obligation to make payments on its debt will reduce the amount of cash available to BayFirst to pay dividends on

its common stock. Either or both of BayFirst or the Bank may issue additional debt. Payments due on such debt will further reduce the amount of money available to BayFirst to pay dividends on its common stock.

We are restricted by law and government policy in our ability to pay dividends to our shareholders.

Holders of shares of our capital stock are only entitled to receive such dividends as our Board may declare out of funds legally available for such payments. Although we have recently declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. Furthermore, the terms of our subordinated debt and the preferred stock will prohibit us from declaring or paying any dividends on any junior series of our capital stock, including our common stock, or from repurchasing, redeeming or acquiring such junior stock, unless we have declared and paid full dividends on our outstanding preferred stock for the most recently completed dividend period. The holders of our outstanding Series A Preferred Stock are entitled to receive quarterly cash dividends at 9% per annum (subject to increase to 11% if we have not redeemed the shares by the tenth anniversary of their issuance in 2019) and the holders of our Series B Convertible Preferred Stock are entitled to receive quarterly cash dividends at 8% per annum (subject to increase to 9% if we have not redeemed the shares by the tenth anniversary of their issuance in 2020 and 2021), and the holders of our Series C Cumulative Convertible Preferred Stock are entitled to receive quarterly cash dividends at 11% per annum (subject to increase to 12% if we have not redeemed the shares by the tenth anniversary of their issuance in 2023). Additionally, our Articles of Incorporation provide that our Board of Directors may authorize and issue additional series of preferred stock without shareholder approval. Any preferred shares issued in the future may further restrict our ability to declare or pay dividends on any junior stock, including the common stock.

We are also subject to state and federal statutory and regulatory limitations on our ability to pay dividends on our capital stock. For example, it is the policy of the Federal Reserve that bank holding companies should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the organization's expected future needs, asset quality and financial condition. Moreover, the Federal Reserve will closely scrutinize any dividend payout ratio exceeding 30% of after-tax net income. You should not purchase common stock if you will need or expect an investment that pays dividends.

We are an emerging growth company, and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies. These include not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions until we are no longer an emerging growth company, which could be as long as five full fiscal years following the initial listing of our common stock on Nasdaq. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

Further, 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. We have not opted out of such extended transition period. This means that when a standard is issued or revised and it has different application dates for public business entities or non-public business entities we, as an emerging growth company, can adopt the new or revised standard at the time non-public entities do so. This may make our 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.

We are a smaller reporting company and are exempt from certain disclosure requirements, which could make our common stock less attractive to potential investors.

We are a smaller reporting company, as defined under the Exchange Act, and may continue to be so after we no longer qualify as an emerging growth company. As a smaller reporting company, we will: (i) not be required and may not include a Compensation Discussion and Analysis section in our proxy statements, (ii) provide only two years of financial statements; and (iii) not need to provide a table of selected financial data. We also will have other scaled disclosure requirements that are less comprehensive than issuers that are not smaller reporting companies which could make our common stock less attractive to potential investors. We cannot predict if investors will find our common stock less attractive as a result of our reliance on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

Certain provisions of Florida and federal law may discourage or prevent a takeover of BayFirst and result in a lower market price for our common stock.

Florida and federal law contain anti-takeover provisions that apply to us. These provisions could discourage potential buyers from seeking to acquire us in the future, even if the proposed transaction would allow shareholders to realize a premium for their shares and even if a majority of our shareholders wish to participate in such a transaction. As a result, these provisions could also adversely affect the market price of our common stock.

Our fractional shares may be difficult to sell and you may be required to indefinitely hold a fractional share.

We have issued, and may continue to issue, fractional shares of our common stock. Although the owner of a fractional share will have all the rights of a shareholder, it may be difficult to sell a fractional share of BayFirst common stock. Established trading markets and exchanges, such as Nasdaq, do not permit the trading of fractional shares. Certain brokers do facilitate the trading of fractional shares, but we can offer no assurances as to whether any specific broker does. If you want to sell a fractional share and cannot identify

a broker to facilitate such a trade, you will have to hold that fractional share until you identify a private buyer for it. If you cannot locate a private buyer, you will have to hold that fractional share indefinitely.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

Cybersecurity risks are constantly evolving and becoming increasingly pervasive across all industries. We use people, process, and technology controls to manage and mitigate cybersecurity risk. The Company's Board of Directors delegates oversight of the Bank's processes for identifying, assessing, and mitigating material risks, including cybersecurity risks, to the Board Audit and Risk Management Committee. Senior Leadership, including the CTO and CRO, managed third-party service providers and advisors to maintain and continuously enhance the Bank's Information Security Program. The CTO, CRO, and the Bank's third-party virtual ISO regularly present to the Board Audit and Risk Management Committee on the state of cybersecurity at the Bank, including any business-impacting incidents and emerging industry risks. The virtual ISO has over 30 years of experience in IT, Information Security, Business Continuity, and Technology Risk in the Financial Services sector and maintains several industry-recognized security, audit, privacy and governance certifications.

Key elements of the comprehensive Information Security Program include:

- A mix of administrative and technical tools and controls appropriate to the size and complexity of the Bank to protect the confidentiality, integrity, and availability of critical systems and data, including the privacy of customer data, in compliance with applicable laws and regulations.
- Risk assessments are conducted to: (a) identify reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of critical Bank systems and data, (b) determine the likelihood and potential impact of the threats, and (c) determine the sufficiency of controls and mitigating factors to reduce the risks identified.
- A detailed Cyber Incident Response Plan which includes engagement of a third-party that specializes in cybersecurity for financial institutions to assist in incident response and recovery and communications with the Board, regulators, law enforcement and Federal and State Government offices, as required. While the Bank has not experienced a business-impacting cyber incident to date, the Cyber Incident Response Plan is tested at least annually and updated as required so that personnel are prepared for an actual incident.
- Security Awareness training to help employees understand their information protection and cybersecurity responsibilities, including targeted campaigns on common social engineering techniques utilized by threat actors.
- A third-party risk management program to classify suppliers according to risk and identify those that require enhanced cyber due diligence.
- Annual independent third-party penetration tests, vulnerability scans, assessments and audits of the Bank's Information Security Program elements.

While cybersecurity risks have the potential to materially affect the Company's business, financial condition, and results of operations, the Company does not believe that risks from cybersecurity threats or attacks have materially affected the Company, including its business strategy, results of operations or financial condition. As of the date of this Form 10-K, the Company is not aware of any cybersecurity incidents that have materially affected or are reasonably likely to materially affect the Company, including its business strategy, results of operations, or financial condition that are required to be reported in this Form 10-K. For further discussion, please see [Item 1A. "Risk Factors"](#) for a discussion of cybersecurity risks.

Item 2. Properties

The following table contains information concerning the current and intended locations of the Bank's full-service banking centers. The Bank also operates 1 loan production office located in Sarasota.

Location	Use	Own or Lease	Year First Operated
700 Central Avenue St. Petersburg, FL 33701	Corporate and Bank Headquarters	Lease	2017
9190 Seminole Boulevard Seminole, FL 33772	Banking Center	Own	1999
5250 Park Boulevard Pinellas Park, FL 33781	Banking Center	Own	2006
2520 Countryside Boulevard Clearwater, FL 33763	Banking Center	Own	2018
2033 Main Street, Suite 101 Sarasota, FL 34237	Banking Center	Lease	2018
3015 West Columbus Drive Tampa, FL 33607	Banking Center	Own	2020
401 N. Indian Rocks Road Belleair Bluffs, FL 33770	Banking Center	Own	2021
2102 59th Street West Bradenton, FL 34209	Banking Center	Own	2022
16002 N. Dale Mabry Highway Tampa, FL 33618	Banking Center	Own	2023
5600 Bee Ridge Road Sarasota, FL 34233	Banking Center	Own	2023
1782 Dr. Martin Luther King Way Sarasota, FL 34240	Loan Production Office	Banking Center	Own
			2021

In addition, the Bank acquired the following properties to be used as full-service banking centers.

Location	Ownership Status	Year Acquired	2023
2075 S. Tamiami Trail Sarasota, FL 34239	Banking Center	Own	2019
5600 Bee Ridge Road Sarasota, FL 34233	Own	2021	
8704 SR 70 East Bradenton, FL 34202	Own	2021	2024

Item 3. 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 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 or any of its subsidiaries is a party or to which its property is the subject.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The common stock began trading on the Nasdaq under the symbol "BAFN" on November 30, 2021. Prior to that, the common stock was traded on the OTC Markets Group Inc. (OTCQX) under the symbol "FHBI".

Issuer Purchases of Equity Securities

Share Buyback Program. On January 26, 2021, the Company's Board of Directors authorized a stock repurchase program for the repurchase of up to \$100,000 per calendar quarter of the company's issued and outstanding common stock. On November 30, 2021 February 28, 2023, the Board of Directors approved the amendment to its stock repurchase program to allow Company's 2023 Stock Repurchase Program ("Repurchase Program"). The Repurchase Program permits the Company to repurchase up to \$450,000 \$1,000,000 of the Company's issued and outstanding common stock. The Repurchase Program ended as of December 31, 2023.

The Inflation Reduction Act of 2022 created a new nondeductible 1% excise tax on repurchases of corporate stock per quarter by certain publicly traded corporations or their specified affiliates after December 31, 2022. The changes 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 program were implemented immediately and continued until December 31, 2022. All common shares 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 program have been retired and are now held as unissued shares available for use and reissuance for purposes as and when determined by Inflation Reduction Act of 2022 on our consolidated financial statements will be dependent on the Board. 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 December 31, 2022 December 31, 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
October 1-31, 2022	—	\$ —	—	—	\$ 911,472
November 1-30, 2022	—	—	—	—	\$ 911,472
December 1-31, 2022	—	—	—	—	\$ 911,472
Total	—	\$ —	—	—	\$ 911,472

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
October 1-31, 2023	—	\$ —	—	900	\$ 987,178
November 1-30, 2023	—	—	—	900	\$ 987,178
December 1-31, 2023	—	—	—	900	\$ 987,178
Total	—	\$ —	—	900	\$ 987,178

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 December 31, 2022 December 31, 2023, total shares repurchased for \$88,528 \$12,822 had been redeemed since the program Repurchase Program was implemented. The repurchased shares remain authorized, unissued shares.

Item 6. {Reserved}

Item 7. 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 fiscal years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 and financial condition as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022. 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-K 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 the COVID-19 pandemic, 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.

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

Selected Financial Data - Unaudited

	As of and for the Three Months Ended		As of and for the Year Ended	
	12/31/2022	9/30/2022	12/31/2021	12/31/2022
(Dollars in thousands, except per share data)	12/31/2022	9/30/2022	12/31/2021	12/31/2021

		As of and for the Three Months Ended		As of and for the Three Months Ended					As of and for the Year Ended			
				(Dollars in thousands, except for share data)		(Dollars in thousands, except for share data)		12/31/2023	9/30/2023	12/31/2022	12/31/2023	12/31/2022
(Dollars in thousands, except for share data)												
Income Statement Data:	Income Statement Data:											
Net interest income	Net interest income	\$ 8,574	\$ 9,170	\$ 5,745	\$ 30,000	\$ 36,526						
Provision for loan losses		700	750	(2,500)	(700)	(3,500)						
Net interest income												
Net interest income												
Provision for credit losses ⁽¹⁾												
Noninterest income	Noninterest income	8,404	9,804	5,597	31,550	21,973						
Noninterest expense	Noninterest expense	13,493	14,158	13,262	55,212	50,279						
Income tax expense (benefit)		672	983	(276)	1,560	2,691						
Income tax expense												
Net income from continuing operations	Net income from continuing operations	2,113	3,083	856	5,478	9,029						
Net (loss) income from discontinued operations		(791)	(4,485)	1,955	(5,827)	15,589						
Net loss from discontinued operations												
Net income (loss)	Net income (loss)	1,322	(1,402)	2,811	(349)	24,618						
Preferred stock dividends	Preferred stock dividends	208	208	208	832	1,005						
Net income available to (loss attributable to) common shareholders	Net income available to (loss attributable to) common shareholders	\$ 1,114	\$ (1,610)	\$ 2,603	\$ (1,181)	\$ 23,613						
Balance Sheet Data:	Balance Sheet Data:											
Average loans held for investment, excluding PPP loans		\$ 703,193	\$ 663,716	\$ 518,697	\$ 608,563	\$ 421,936						
Average loans HFI, excluding PPP loans												
Average loans HFI, excluding PPP loans												

Average loans HFI, excluding PPP loans						
Average loans HFI at amortized cost, excluding PPP loans						
Average total assets	Average total assets	925,194	939,847	923,485	904,546	1,294,287
Average common shareholders' equity	Average common shareholders' equity	80,158	83,014	83,056	82,589	72,955
Total loans held for investment		728,652	680,805	583,948	728,652	583,948
Total loans held for investment, excluding PPP loans		709,479	658,669	504,525	709,479	504,525
Total loans held for investment, excluding government guaranteed loan balances		569,892	520,408	332,977	569,892	332,977
Allowance for loan losses		9,046	9,739	13,452	9,046	13,452
Total loans HFI						
Total loans HFI, excluding PPP loans						
Total loans HFI, excluding government guaranteed loan balances						
Allowance for credit losses ⁽¹⁾						
Total assets	Total assets	938,895	930,275	917,095	938,895	917,095
Common shareholders' equity						
Per Share Data:						
Basic earnings (loss) per common share						
Basic earnings (loss) per common share						
Basic earnings (loss) per common share						
Diluted earnings (loss) per common share						
Dividends per common share						
Book value per common share						

Tangible book value per common share ⁽²⁾									
Performance Ratios:									
Return on average assets ⁽³⁾									
Return on average assets ⁽³⁾									
Return on average assets ⁽³⁾					0.60 %	0.71 %	0.57 %	0.54 %	(0.04) %
Return on average common equity ⁽³⁾					Return on average common equity ⁽³⁾				
Net interest margin ⁽³⁾					6.37 %	8.46 %	5.56 %	5.87 %	(1.43) %
Dividend payout ratio					Net interest margin ⁽³⁾				
					3.48 %	3.36 %	4.19 %	3.78 %	3.97 %
					Dividend payout ratio				
					25.03 %	19.15 %	28.99 %	27.70 %	(108.95) %
Asset Quality Data:									
Net charge-offs									
Net charge-offs									
Net charge-offs									
Net charge-offs/average loans HFI at amortized cost, excluding PPP ⁽³⁾					Net charge-offs/average loans HFI at amortized cost, excluding PPP ⁽³⁾				
Nonperforming loans ⁽⁴⁾					1.29 %	1.15 %	0.82 %	1.19 %	0.64 %
Nonperforming loans (excluding government guaranteed balance) ⁽⁴⁾									
Nonperforming loans/total loans HFI ⁽⁴⁾					Nonperforming loans/total loans HFI ⁽⁴⁾				
					1.18 %	1.20 %	1.49 %	1.18 %	1.49 %

BAYFIRST FINANCIAL CORP.								
(Dollars in thousands, except per share data)	As of and for the Three Months Ended			As of and for the Year Ended				
	12/31/2022	9/30/2022	12/31/2021	12/31/2022	12/31/2021			
Common shareholders' equity	82,279	81,032	86,685	82,279	86,685			
Per Share Data:								
Basic earnings (loss) per common share	\$ 0.28	\$ (0.40)	\$ 0.66	\$ (0.29)	\$ 6.21			
Diluted earnings (loss) per common share	\$ 0.28	\$ (0.37)	\$ 0.62	\$ (0.22)	\$ 5.91			
Dividends per common share	\$ 0.080	\$ 0.080	\$ 0.070	\$ 0.320	\$ 0.277			
Book value per common share	\$ 20.35	\$ 20.10	\$ 21.77	\$ 20.35	\$ 21.77			
Tangible book value per common share ⁽¹⁾	\$ 20.35	\$ 20.10	\$ 21.75	\$ 20.35	\$ 21.75			
Performance Ratios:								
Return on average assets	0.57 %	(0.60)%	1.22 %	(0.04)%	1.90 %			
Return on average common equity	5.56 %	(7.76)%	12.54 %	(1.43)%	32.37 %			
Net interest margin	4.19 %	4.63 %	3.07 %	3.97 %	3.23 %			
Dividend payout ratio	28.99 %	(20.02)%	10.65 %	(108.95)%	4.46 %			
Asset Quality Data:								

Net charge-offs	\$ 1,393	\$ 575	\$ 664	\$ 3,706	\$ 4,210
Net charge-offs/average loans held for investment excluding PPP	0.79 %	0.35 %	0.51 %	0.61 %	1.00 %
Nonperforming loans	\$ 10,468	\$ 10,267	\$ 11,909	\$ 10,468	\$ 11,909
Nonperforming loans (excluding government guaranteed balance)	\$ 3,671	\$ 4,015	\$ 3,967	\$ 3,671	\$ 3,967
Nonperforming loans/total loans held for investment	1.44 %	1.51 %	2.04 %	1.44 %	2.04 %
Nonperforming loans (excluding gov't guaranteed balance)/total loans held for investment	0.50 %	0.59 %	0.68 %	0.50 %	0.68 %
ALLL/Total loans held for investment at amortized cost	1.29 %	1.48 %	2.34 %	1.29 %	2.34 %
ALLL/Total loans held for investment at amortized cost, excluding PPP loans	1.33 %	1.54 %	2.72 %	1.33 %	2.72 %
Other Data:					
Full-time equivalent employees	291	524	637	291	637
Banking centers	8	8	7	8	7
Loan production offices ⁽²⁾	1	20	17	1	17

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

⁽²⁾ All out of market nationwide residential loan production offices have been closed.

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

(Dollars in thousands, except for share data)	As of and for the Three Months Ended			As of and for the Year Ended	
	12/31/2023	9/30/2023	12/31/2022	12/31/2023	12/31/2022
Nonperforming loans (excluding gov't guaranteed balance)/total loans HFI ⁽⁴⁾	1.00 %	1.01 %	0.52 %	1.00 %	0.52 %
ACL/Total loans HFI at amortized cost ⁽¹⁾	1.64 %	1.68 %	1.29 %	1.64 %	1.29 %
ACL/Total loans HFI at amortized cost, excluding PPP loans ⁽¹⁾	1.64 %	1.72 %	1.33 %	1.64 %	1.33 %
Other Data:					
Full-time equivalent employees	305	307	291	305	291
Banking centers	11	10	8	11	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

⁽⁴⁾ Excludes loans accounted for at fair value

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

(Dollars in thousands, except per share data)	As of		
	December 31, 2022	September 30, 2022	December 31, 2021
	(Unaudited)	(Unaudited)	(Unaudited)

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		
(Dollars in thousands, except for share data)		December 31, 2022		
Total shareholders' equity	Total shareholders' equity	\$ 91,884	\$ 90,637	\$ 96,290
Less: Preferred stock liquidation preference	Less: Preferred stock liquidation preference	(9,605)	(9,605)	(9,605)
Total equity available to common shareholders	Total equity available to common shareholders	82,279	81,032	86,685
Less: Less: Goodwill	Goodwill	—	—	(100)
Tangible common shareholders' equity	Tangible common shareholders' equity	\$ 82,279	\$ 81,032	\$ 86,585
Common shares outstanding	Common shares outstanding	4,042,474	4,031,937	3,981,117
Common shares outstanding				
Common shares outstanding	Tangible book value per common share	\$ 20.35	\$ 20.10	\$ 21.75

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 December 31, 2022 December 31, 2023, 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 allowance for loan losses, and ACL, fair value measurement of investment securities, SBA government guaranteed loan servicing rights and SBA government guaranteed loans held for investment HFI at fair value, which are discussed more fully below.

Allowance for Loan Credit Losses

The allowance for loan losses 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 content 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 allowance for loan losses. ACL.

Fair Value Measurements - Government Guaranteed Loan Servicing Rights

Investments The fair value of servicing assets is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as adequate compensation for servicing, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and certain SBA default rates and losses. The fair value of servicing rights is highly sensitive to changes in underlying assumptions. Changes in prepayment speed and discount rate assumptions typically have the most significant impacts on the fair value of servicing rights. Generally, as interest rates decrease on variable rate loans, loan prepayments increase due to an increase in refinance activity, which results in a decrease in the fair value of servicing assets. The discount rate used in the estimation process is tied to a benchmark risk-free rate with a risk premium added using a build-up method. Measurement of fair value is limited to the conditions existing and the assumptions used as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time.

Fair Value Measurements - Government Guaranteed Loans HFI

Certain government guaranteed loans HFI 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, SBA 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. The fair value for government guaranteed loans HFI is calculated based on the present value of estimated future payments. 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. 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.

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.

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, and salaries and commissions plus related employee benefits. The Company measures its performance through its net interest income after provision for loan credit losses, return on average assets, and return on average common equity, while maintaining appropriate regulatory leverage and risk-based capital ratios.

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 4,611 shares were issued during the fourth quarter of 2023. Total gross proceeds from the preferred stock offering currently totals \$6.45 million, which will be used for operating expenses or to contribute capital to BayFirst National Bank to support its growth and operations.

First Quarter Common Stock Dividend. On January 24, 2023 January 23, 2024, BayFirst's Board of Directors declared a first quarter 2023 2024 cash dividend of \$0.08 per common share, payable March 15, 2023 March 15, 2024 to common shareholders of record as of March 1, 2023 March 1, 2024. This dividend marks the 27 31st consecutive quarterly cash dividend paid since BayFirst initiated cash dividends in 2016.

First 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 April 3, 2023 March 1, 2024 to shareholders of record as of January 16, 2023 January 15, 2024. The amount and timing of the dividend is in accordance with the terms of the Series A Preferred Stock.

First 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 April 3, 2023 March 1, 2024 to shareholders of record as of January 16, 2023 January 15, 2024. The amount and timing of the dividend is in accordance with the terms of the Series B Convertible Preferred Stock.

Management Succession First Quarter Preferred Series C Stock Dividend. On February 6, 2023, BayFirst Financial Corp. issued a press release announcing that Anthony N. Leo will retire as Chief Executive Officer at the end of 2023. Leo will remain a Director of the Company and will also serve as Special Counsel for strategic matters. The BayFirst's Board of Directors has appointed Thomas G. Zernick declared a quarterly cash dividend of \$27.50 on the Series C Cumulative Convertible Preferred Stock. The dividend was payable March 1, 2024 to succeed Leo shareholders of record as Chief Executive Officer on January 1, 2024 or January 15, 2024. He was also appointed to serve as a Director. The amount and timing of the Company. Zernick has served as President dividend is in accordance with the terms of the Company since February 2022, and previously served as President of its CreditBench Division, which provides government guaranteed lending to businesses throughout the nation. He joined the Company in 2016. Series C Cumulative Convertible Preferred Stock.

Stock Repurchase Program. On February 28, 2023, the Board of Directors approved the Company's 2023 Stock Repurchase Program ("Program"). The Program permits the Company to repurchase up to \$1,000,000 of the Company's issued and outstanding common stock. The 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.

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, 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, **we** 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. The sale of the guaranteed portions of the loans generates noninterest income.

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 (Loss)

The Company had net loss for For the year ended December 31, 2022 2023, net income was \$5.7 million, or \$1.12 per diluted common share, an increase of \$6.0 million from the net loss of \$349 thousand 0.3 million, or \$0.22 per diluted common share, compared to net income for the year ended December 31, 2021 of \$24.6 million or \$5.91 per diluted common share. 2022. The decrease of \$25.0 million from the previous year was primarily due to a decrease of \$21.4 million in net income from mortgage banking activity which is a discontinued operation. Additionally, there was a \$13.8 million gain on sale of PPP loans in 2021 which did not recur, noninterest expense on continuing operations increased \$4.9 million, and PPP fee and interest income decreased \$18.3 million. These items were partially offset by an \$11.6 million increase in non-PPP loan interest and fee income, a \$4.6 million increase in fair value gains related to held for investment SBA loans, and higher gains of \$17.5 million on non-PPP SBA loan sales. The decrease in net income from discontinued operations was primarily the result of a decrease \$5.8 million net loss from discontinued operations in gain on sale 2022, as well as an increase in net income from continuing operations of residential mortgage loans \$0.4 million primarily as a result of \$64.2 million and the recognition of restructuring charges of \$4.3 million for the discontinuation of the nationwide residential mortgage division, partially offset by lower noninterest expense of \$41.0 million, increased loan origination volume.

Net Interest Income

Net interest income from continuing operations was \$36.4 million for the year ended December 31, 2023, an increase of \$6.4 million or 21.4% from \$30.0 million for the year ended December 31, 2022 a decrease of \$6.5 million or 17.9% from \$36.5 million for the year ended 2021. The decrease increase was mainly due to a decline an increase in net PPP loan interest income, including fees, of \$18.3 million \$26.7 million, partially offset by higher an increase in deposit interest income on non-PPP loans expense of \$11.6 million \$23.0 million.

Net interest margin including discontinued operations improved decreased to 3.78% for the year ended December 31, 2023, compared to 3.97% for the year ended December 31, 2022 compared to 3.23% for the year ended 2021..

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.

Year Ended December 31,										For the Year Ended December 31,									
2022										2021									
For the Year Ended December 31,																			
(Dollars in thousands)	(Dollars in thousands)	Average Balance	Interest	Yield	Average Balance	Interest	Yield	(Dollars in thousands)	Average Balance	Interest	Yield	Average Balance	Interest	Yield	(Dollars in thousands)	Average Balance	Interest	Yield	(Dollars in thousands)
Interest earning-assets:																			
Interest-earning assets:																			
Investment securities	Investment securities	\$ 43,768	\$ 1,065	2.43 %	\$ 17,404	\$ 199	1.14 %	\$ 44,108	\$ 1,847	\$ 4,19	4.19 %	\$ 43,768	\$ 1,065	2.43					
Loans, excluding PPP (1) (2)	Loans, excluding PPP (1) (2)	667,088	38,280	5.74	545,889	27,681	5.07												
PPP loans	PPP loans	39,959	959	2.40	537,710	19,292	3.59												
Other	Other	73,867	1,009	1.37	145,654	371	0.25												
Total interest-earning assets	Total interest-earning assets	824,682	41,313	5.01	1,246,657	47,543	3.81												
Noninterest-earning assets	Noninterest-earning assets	79,864			47,630														
Total assets	Total assets	\$904,546			\$1,294,287														
Total assets																			
Interest-bearing liabilities:	Interest-bearing liabilities:																		
Interest-bearing liabilities:																			
NOW, MMDA and savings	NOW, MMDA and savings																		
NOW, MMDA and savings	NOW, MMDA and savings	\$602,491	\$ 6,175	1.02	\$ 501,701	\$ 4,032	0.80												
Time deposits	Time deposits	72,603	1,669	2.30	74,749	853	1.14												
PPPLF advances	PPPLF advances	5,667	20	0.35	510,911	1,791	0.35												
Other borrowings	Other borrowings	22,708	702	3.09	28,359	624	2.20												
Total interest-bearing liabilities	Total interest-bearing liabilities	703,469	8,566	1.22	1,115,720	7,300	0.65												
Demand deposits	Demand deposits	101,193			85,542														
Noninterest-bearing liabilities	Noninterest-bearing liabilities	7,690			8,088														
Noninterest-bearing liabilities																			

Shareholders' equity	Shareholders' equity	92,194	84,937
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	\$904,546	\$1,294,287
Total liabilities and shareholders' equity			
Net interest income	Net interest income	\$32,747	\$40,243
Net interest income			
Interest rate spread	Interest rate spread	3.79	3.16
Net interest margin (3)	Net interest margin (3)	3.97	3.23
Ratio of average interest-earning assets to average interest-bearing liabilities	Ratio of average interest-earning assets to average interest-bearing liabilities	117.23 %	111.74 %

(2) Includes \$58,525 at an average yield of 4.69% and \$123,953 at an average yield of 3.00% of residential loans held for sale from discontinued operations as of December 31, 2022 and December 31, 2021, respectively.

(1) Includes nonaccrual loans.

(1) Includes nonaccrual loans.

(2) Includes \$42 at an average yield of 2.02% and \$58,525 at an average yield of 4.69% of residential loans held for sale from discontinued operations as of December 31, 2023 and December 31, 2022, respectively.

(2) Includes \$42 at an average yield of 2.02% and \$58,525 at an average yield of 4.69% of residential loans held for sale from discontinued operations as of December 31, 2023 and December 31, 2022, respectively.

(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)	(Dollars in thousands)	Rate	Volume	Total	(Dollars in thousands)	Rate	Volume	Total
Year Ended December 31, 2022 vs. December 31, 2021:								
Year Ended December 31, 2023 vs. December 31, 2022:								
Interest-earning assets:								
Interest-earning assets:								
Investment securities								
Investment securities	Investment securities	\$ 370	\$ 496	\$ 866				
Loans, excluding PPP ⁽¹⁾	Loans, excluding PPP ⁽¹⁾	3,945	6,654	10,599				
PPP loans	PPP loans	(4,830)	(13,503)	(18,333)				
Other interest-earning assets	Other interest-earning assets	902	(264)	638				
Total interest-earning assets	Interest-earning assets	387	(6,617)	(6,230)				
Interest-bearing liabilities:	Interest-bearing liabilities:							
NOW, MMDA, and savings	NOW, MMDA, and savings	1,239	904	2,143				
NOW, MMDA, and savings								
NOW, MMDA, and savings								
Time deposits	Time deposits	841	(25)	816				
PPPLF advances	PPPLF advances	—	(1,771)	(1,771)				
Other borrowings	Other borrowings	219	(141)	78				
Total interest-bearing liabilities	Total interest-bearing liabilities	2,299	(1,033)	1,266				
Net change in net interest income	Net change in net interest income	\$(1,912)	\$(5,584)	\$(7,496)				

⁽¹⁾ Includes \$2,747 and \$3,717 of interest income on residential loans held for sale from discontinued operations as of December 31, 2022 and December 31, 2021, respectively.

⁽¹⁾ Includes \$1 and \$2,747 of interest income on residential loans held for sale from discontinued operations as of December 31, 2023 and December 31, 2022, respectively.

⁽¹⁾ Includes \$1 and \$2,747 of interest income on residential loans held for sale from discontinued operations as of December 31, 2023 and December 31, 2022, respectively.

Provision for **Loan** Credit Losses

The provision for **loan** credit losses is charged to operations to **increase** **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.

As The Company recorded a provision for credit losses for the **financial impact** year ended December 31, 2023 of \$10.4 million compared to a \$0.7 million negative provision under the **COVID-19 pandemic became more predictable throughout 2021** incurred loss methodology for the year ended December 31, 2022. The increase of \$11.1 million in the provision for credit losses expense was primarily due to loan growth, higher charge-offs, and **2022, the Company began adjusting downward having reduced its allowance for loan losses ALLL under the incurred loss methodology in 2022 from the historic high levels reached in 2020 at the onset of the COVID-19 pandemic. The Company recorded a negative provision for loan losses for the year ended December 31, 2022 of \$700 thousand compared to a \$3.5 million negative provision for the year ended December 31, 2021. The increase of \$2.8 million in the provision for loan losses expense was primarily due to the loan growth. During the year ended December 31, 2022 December 31, 2023, net loan charge offs totaled \$3.7 million \$9.0 million compared to \$4.2 million \$3.7 million during the year ended December 31, 2021 December 31, 2022. Net charge-offs for the year ended December 31, 2023 were elevated by \$2.8 million due to the performance from a purchased portfolio of unsecured consumer loans. As of December 31, 2023, this portfolio had \$1.0 million of loans 30-89 days past due and \$0.3 million of loans 90+ days past due. The Company stopped purchasing these loans at the end of 2022 and the portfolio balances decreased from \$30.9 million to \$17.0 million during 2023.**

The **ALLL ACL** was \$9.0 million at December 31, 2022 and \$13.5 million at December 31, 2021 December 31, 2023 and \$9.0 million using the incurred losses methodology at December 31, 2022.

Noninterest Income

The following table presents noninterest income from continuing operations for the **years** **year** ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

(Dollars in thousands)	For the Year Ended December 31,			2022
	2022	2021	(Dollars in thousands)	

Noninterest income:	Noninterest income:		
Loan servicing income, net	Loan servicing income, net	\$ 2,040	\$ 1,864
Loan servicing income, net	Loan servicing income, net		
Gain on sale of government guaranteed loans, net	Gain on sale of government guaranteed loans, net	21,720	18,024
Service charges and fees	Service charges and fees	1,306	1,027
SBA loan fair value gain	SBA loan fair value gain	4,756	184
Government guaranteed loan fair value gain	Government guaranteed loan fair value gain		
Government guaranteed loan packaging fees	Government guaranteed loan packaging fees		
Other noninterest income	Other noninterest income	1,728	874
Total noninterest income	Total noninterest income	\$ 31,550	\$ 21,973

Noninterest income from continuing operations was \$31.6 million \$49.8 million for the year ended December 31, 2022 December 31, 2023, an increase of \$9.6 million \$18.2 million or 43.6% 57.7% from \$22.0 million \$31.6 million for the year ended December 31, 2021 December 31, 2022. The increase was primarily due to higher gains on the sale of non-PPP SBA government guaranteed loans of \$17.5 million \$2.8 million, an \$11.0 million increase in fair value gains related to HFI government guaranteed loans, and an increase in other noninterest income of \$3.2 million. The increase in other noninterest income was primarily due to held for investment SBA higher government guaranteed loan packaging fees of \$2.9 million. The increase in fair value gains related to HFI government guaranteed loans was primarily related to an increase in the volume of \$4.6 million, partially offset by loans held at fair value. As of December 31, 2023, the \$13.8 million gain on sale Company had \$91.5 million of PPP loans in 2021 which did not recur, held at fair value compared to \$27.1 million at December 31, 2022.

Noninterest Expense

The following table presents noninterest expense from continuing operations for the years year ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

		For the Year Ended December 31,		
		For the Year Ended December 31,		
		For the Year Ended December 31,		
		For the Year Ended December 31,		
(Dollars in thousands)	(Dollars in thousands)	2022	2021	(Dollars in thousands)
Noninterest expense:	Noninterest expense:			
Salaries and benefits	Salaries and benefits	\$ 27,422	\$ 24,879	2023
Salaries and benefits	Salaries and benefits			2022
Bonus, commissions, and incentives	Bonus, commissions, and incentives	2,394	3,216	
Occupancy and equipment	Occupancy and equipment			
Occupancy and equipment	Occupancy and equipment	3,995	3,214	
Data processing	Data processing	4,828	5,288	

Marketing and business development	Marketing and business development	2,660	2,698
Professional services	Professional services	4,083	3,907
Loan origination and collection	Loan origination and collection	3,711	2,452
Employee recruiting and development	Employee recruiting and development	2,230	1,714
Regulatory assessments	Regulatory assessments	457	442
Director compensation	Director compensation	686	323
Director compensation			
Director compensation			
Liability and fidelity bond insurance	Liability and fidelity bond insurance	463	340
ATM and interchange	ATM and interchange	381	312
Telecommunication	Telecommunication	367	250
Other noninterest expense	Other noninterest expense	1,535	1,244
Total noninterest expense	Total noninterest expense	\$ 55,212	\$ 50,279

Noninterest expense was \$55.2 million \$67.7 million during the year ended December 31, 2022 December 31, 2023, an increase of \$4.9 million \$12.5 million or 9.8% 22.6% from \$50.3 million \$55.2 million for the year ended December 31, 2021 December 31, 2022. The increase was primarily due to the result of higher salaries and benefits, occupancy expense, compensation costs and loan origination and collection expense.

Discontinued Operations

Net loss from discontinued operations was \$213 thousand for the year ended December 31, 2023, which was a \$5.6 million reduction from a net loss of \$5.8 million for the year ended December 31, 2022. The majority of the discontinued loss in 2022 which was a \$21.4 million reduction recorded in the third quarter of 2022. As such, the net loss from net income of \$15.6 million discontinued operations for the year ended 2021. The reduction in net income was primarily the result 2022 included restructuring charges of a decrease in residential loan fee income of \$64.2 million \$4.3 million and the restructuring charges for discontinued loss in the discontinuation year ended of residential mortgage division 2023 represented a modest amount of \$4.3 million recognized in 2022. This was partially offset by a \$41.0 million decrease in noninterest expense excluding trailing expenses from the restructuring charge and a decrease in income tax expense of \$7.1 million discontinuation.

Income Taxes

Income tax expense from continuing operations was \$1.6 million \$2.1 million for the year ended December 31, 2022 December 31, 2023, a decrease an increase of \$1.1 million \$0.6 million from income tax expense of \$2.7 million \$1.6 million for the year ended December 31, 2021 December 31, 2022. The decrease increase was primarily due to the decrease increase in pre-tax earnings from continuing operations. Income tax benefit from discontinued operations was \$1.9 million \$70 thousand for the year ended December 31, 2022 December 31, 2023, a change of \$7.1 million \$1.9 million from income tax expense benefit of \$5.2 million \$1.9 million for the year ended December 31, 2021 December 31, 2022. The change was primarily due to the decrease in pre-tax earnings loss from discontinued operations.

At December 31, 2022 December 31, 2023, the Company had \$2.2 million \$1.8 million of federal net operating loss carryforward and \$362 thousand \$0.4 million of state net operating loss carryforward. The net operating loss carryforwards do not expire. At December 31, 2021 December 31, 2022, the Company did not have any had \$2.2 million of federal net operating loss carryforward and \$0.4 million of state net operating loss carryforward.

The effective income tax rate was 26.44% for the year ended December 31, 2023 and 51.60% for the year ended December 31, 2022 and 24.20% for the year ended December 31, 2021.

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 December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

(Dollars in thousands)	(Dollars in thousands)	December 31, 2022	December 31, 2021	(Dollars in thousands)	December 31, 2023	December 31, 2022
Investment securities available for sale:	Investment securities available for sale:					

Asset-backed securities	Asset-backed securities	\$ 9,605	\$ 7,535
Asset-backed securities			
Asset-backed securities			
Mortgage-backed securities:			
U.S. Government-sponsored enterprises	Mortgage-backed securities:		
U.S. Government-sponsored enterprises			
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	3,440	4,394
Collateralized mortgage obligations:	Collateralized mortgage obligations:		
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	18,220	18,964
U.S. Government-sponsored enterprises			
U.S. Government-sponsored enterprises			
Corporate bonds	Corporate bonds	11,084	—
Total investment securities available for sale	Total investment securities available for sale	\$ 42,349	\$ 30,893

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

The following table presents the fair value amortized cost of the Company's investment securities portfolio classified as held to maturity as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

(Dollars in thousands)	(Dollars in thousands)	December 31, 2022	December 31, 2021	(Dollars in thousands)	December 31, 2023	December 31, 2022
Investment securities held to maturity:	Investment securities held to maturity:					
Mortgage-backed securities:	Mortgage-backed securities:					
Mortgage-backed securities:	Mortgage-backed securities:					
Mortgage-backed securities:	U.S. Government-sponsored enterprises					
Mortgage-backed securities:	U.S. Government-sponsored enterprises					
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	\$ 2	\$ 2			
Corporate bonds	Corporate bonds	4,753	—			
Corporate bonds	Corporate bonds					
Corporate bonds	Corporate bonds					

Total investment securities held to maturity	Total investment securities held to maturity
\$ 4,755	\$ 2

There was a \$17 thousand ACL on the corporate bonds HTM as of December 31, 2023 and no ACL as of December 31, 2022. The net unrealized loss on the investment securities HTM at December 31, 2023, was \$238 thousand compared with a net unrealized loss on investment securities HTM of \$247 thousand at December 31, 2022.

No investment securities were pledged as of December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022, and there were no sales of investment securities during the year ended December 31, 2022 December 31, 2023 or the year ended December 31, 2021 December 31, 2022.

During the second quarter of 2022, the Company transferred a \$1.5 million previously designated available for sale investment security to a held to maturity designation at estimated fair value. The reclassification was permitted as the Company has appropriately determined the ability and intent to hold the investment security as an investment until maturity or call. The investment security had no unrealized net gain or loss at the time of transfer since it was purchased near the end of the first quarter of 2022.

The investment securities available for sale presented in the following tables are reported at amortized cost and by contractual maturity as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022. 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.

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																					
(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										
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																				
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	\$ 11,332										
Total investment securities available for sale	Total investment securities available for sale	\$ —	— %	\$ 9,981	3.70 %	\$ 1,356	4.34 %	\$ 36,037	2.81 %	Average Yield	6.23 %										
December 31, 2021																					
One year or less																					
		Amortized Cost		Amortized Cost		Amortized Cost		Amortized Cost													
(Dollars in thousands)		Average Yield		Average Yield		Average Yield		Average Yield		Average Yield											
Asset-backed securities		— %		— %		— %		— %		— %											
Mortgage-backed securities:																					

U.S. Government-sponsored enterprises	—	—	—	—	—	—	—	4,470	1.32
Collateralized mortgage obligations:									
U.S. Government-sponsored enterprises	—	—	—	—	—	—	—	19,370	1.31
Total investment securities available for sale	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	31,464	1.21 %
	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	31,464	1.21 %

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

The investment securities held to maturity presented in the following tables are reported at amortized cost and by contractual maturity as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022. 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.

December 31, 2023									
(Dollars in thousands)	One year or less		One to five years		Five to ten years		After ten years		
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	
	\$ —	— %	\$ —	— %	\$ —	— %	\$ 1	4.30 %	
Mortgage-backed securities:									
U.S. Government-sponsored enterprises	\$ —	— %	\$ —	— %	\$ —	— %	\$ 1	4.30 %	
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	4.30 %	
	\$ —	— %	\$ 1,500	4.38 %	\$ 1,000	4.38 %	\$ 1	4.30 %	

December 31, 2022									
(Dollars in thousands)	One year or less		One to five years		Five to ten years		After ten years		
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	
	\$ —	— %	\$ —	— %	\$ —	— %	\$ 2	2.65 %	
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 %	
	\$ —	— %	\$ 4,000	5.79 %	\$ 1,000	4.38 %	\$ 2	2.65 %	

December 31, 2022									
(Dollars in thousands)	One year or less		One to five years		Five to ten years		After ten years		
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	
	\$ —	— %	\$ —	— %	\$ —	— %	\$ 2	2.65 %	
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 %	
	\$ —	— %	\$ 4,000	5.79 %	\$ 1,000	4.38 %	\$ 2	2.65 %	

Total investment securities held to maturity	\$ —	— %	\$ 4,000	5.79 %	\$ 1,000	4.38 %	\$ 2	0.74 %
December 31, 2021								
	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	0.80 %
Total investment securities held to maturity	\$ —	— %	\$ —	— %	\$ —	— %	\$ 2	0.80 %

Loan Portfolio Composition

Through The Company offers a variety of products designed to meet the efforts credit needs of the management team our borrowers. Our lending activities primarily consist of government guaranteed loans, real estate loans, commercial business loans, residential mortgage, and loan officers, strong loan production resulted from its ability to take advantage of the economic recovery and consolidation in its markets, 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 8% of the total portfolio. The following table sets forth the composition of its loan portfolio, including LHFS as of the dates indicated.

(Dollars in thousands)	December 31, 2022		December 31, 2021	
	Amount	% of Total	Amount	% of Total
Residential loans held for sale from discontinued operations	\$ 449		\$ 114,131	
Government guaranteed loans, held for sale	\$ —		\$ 1,460	
SBA loans held for investment, at fair value	\$ 27,078		\$ 9,614	
Loans held for investment, at amortized cost:				
Residential real estate	\$ 202,329	29.1 %	\$ 87,235	15.3 %
Commercial real estate	231,281	33.3	163,477	28.7
Construction and land	9,320	1.3	18,632	3.3
Commercial and industrial	194,643	28.0	217,155	38.0
Commercial and industrial – PPP	19,293	2.8	80,158	14.1
Consumer and other	37,288	5.5	3,581	0.6
Loans held for investment, at amortized cost, gross	694,154	100.0 %	570,238	100.0 %
Discount on SBA 7(a) loans sold	(5,621)		(3,866)	
Premium (discount) on loans purchased	2,301		(13)	
Deferred loan costs, net	10,740		7,975	
Allowance for loan losses	(9,046)		(13,452)	
Loans held for investment, at amortized cost, net	<u>\$ 692,528</u>		<u>\$ 560,882</u>	

(Dollars in thousands)	December 31, 2023		December 31, 2022	
	Amount	% of Total	Amount	% of Total
Residential loans held for sale from discontinued operations	\$ —		\$ 449	
Government guaranteed loans, held for sale	\$ —		\$ —	
Government guaranteed loans HFI, at fair value	\$ 91,508		\$ 27,078	
Loans HFI, at amortized cost:				
Residential real estate	\$ 264,126	32.5 %	\$ 202,329	29.1 %
Commercial real estate	293,595	36.2	231,281	33.3

Construction and land	26,272	3.2	9,320	1.3
Commercial and industrial	177,566	21.9	194,643	28.0
Commercial and industrial – PPP	3,202	0.4	19,293	2.8
Consumer and other	47,287	5.8	37,288	5.5
Loans HFI, at amortized cost, gross	812,048	100.0 %	694,154	100.0 %
Discount on government guaranteed loans sold	(7,040)		(5,621)	
Premium on loans purchased, net	4,503		2,301	
Deferred loan costs, net	14,707		10,740	
Allowance for credit losses ⁽¹⁾	(13,497)		(9,046)	
Loans HFI, at amortized cost, net	\$ 810,721		\$ 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.

During the year ended December 31, 2023, the Bank originated approximately \$216.9 million in loans through conventional lending channels and \$547.5 million in loans through CreditBench (its government guaranteed lending function). In general, construction addition, the Bank sold guaranteed loan balances of \$437.9 million and unguaranteed loan balances of \$13.7 million of government guaranteed loans. The Bank purchased \$111.8 million of government guaranteed loans. Of the loans are originated purchased during the year, \$75.8 million were sold or paid off as construction-to-permanent loans. Third party take-out financing, where applicable, is typically in the form of permanent first mortgage conforming loans. December 31, 2023.

During the year ended December 31, 2022, the Bank originated approximately \$254.9 million in loans through conventional lending channels, \$386.0 million in loans through CreditBench, (its SBA lending function), and \$946.1 million through the Residential Mortgage Lending Division. During the year ended December 31, 2021, Division, which is a discontinued operation. Additionally, the Bank originated approximately \$94.9 million in loans through conventional lending channels, \$169.5 million through CreditBench, exclusive of PPP loans, \$329.3 million of PPP loans, and \$2.22 billion through the Residential Mortgage Lending Division. During the year ended December 31, 2022, the Company sold guaranteed loan balances of SBA loans \$311.8 million and unguaranteed loan balances of \$311.8 million. Additionally, the Company \$13.8 million of government guaranteed loans. The Bank purchased \$16.6 million of government guaranteed loans and \$37.2 million of unsecured consumer loans.

Loan Maturity/Rate Sensitivity

The following table shows the contractual maturities of our loans at December 31, 2022 December 31, 2023. 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 After One Year					(Dollars in thousands)	Due After One Year				
		Due in One Year or Less	Year to Five Years	Years to 15 Years	15 Years	Total		Due in One Year or Less	Year to Five Years	Years to 15 Years	15 Years	
Real estate:	Real estate:											
Residential	Residential											
Residential	Residential	\$ 3,761	\$ 1,984	\$ 13,337	\$ 184,356	\$ 203,438						
Commercial	Commercial	7,110	1,909	29,062	200,796	238,877						
Construction and land	Construction and land	2,329	260	92	6,638	9,319						
Commercial and industrial	Commercial and industrial	11,564	16,750	184,369	7,577	220,260						
Commercial and industrial - PPP	Commercial and industrial - PPP	1,471	17,701	—	—	19,172						
Consumer and other	Consumer and other	2,057	27,810	7,719	—	37,586						
Total loans held for investment		\$ 28,292	\$ 66,414	\$ 234,579	\$ 399,367	\$ 728,652						
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 December 31, 2022 December 31, 2023.

(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	\$ 52,181	\$ 147,496
Commercial	Commercial	6,534	225,233
Construction and land	Construction and land	—	6,990
Commercial and industrial	Commercial and industrial	21,070	187,626
Commercial and industrial - PPP	Commercial and industrial - PPP	17,701	—
Consumer and other	Consumer and other	5,313	30,216
Total loans held for investment		\$ 102,799	\$ 597,561
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 loan 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 ALLL, ACL, or that additional increases in the ALLL, ACL will not be required.

Allowance for Loan 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% 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 expected credit losses rather than on incurred losses.

The Bank must maintain an adequate ALLL, ACL based on a comprehensive methodology that assesses the probable losses inherent in its loan portfolio. The Bank maintains an ALLL, 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 FOMC's median forecasts of change in national GDP and of national unemployment. Provisions for loan credit losses are provided on both a specific and general basis. Specific allowances are provided for impaired credits for which the expected/anticipated loss is measurable, individual loans that do not share similar risk characteristics with instruments evaluated using a collective (pooled) basis. General valuation allowances are determined by a portfolio segmentation based on collateral type 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 allowances for loan losses, ACL in an effort to refine such allowances in light of the current status of the factors described above. The methodology is presented to and approved by the Bank's Board of Directors.

All adversely classified nonaccrual loans and modifications to loans for borrowers experiencing financial difficulty are evaluated for impairment, reviewed to determine if the loans share the same risk characteristics as the pooled loans. If a loan is deemed impaired, it is evaluated for potential loss exposure. The evaluation occurs at does not share the time same risk characteristics, the loan is classified and on a regular basis thereafter (at least quarterly). This evaluation is documented in a status report relating to a specific loan or relationship, evaluated individually for credit losses. Specific allocation of reserves on impaired 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 support on each impaired 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.

For performing loans which Prior to January 1, 2023, the incurred loss methodology was used to estimate credit losses. Beginning with that date, the credit losses are evaluated collectively, a portfolio segmentation based on loan type is performed. The estimated using the CECL methodology.

Nonperforming Assets. At December 31, 2023, the Company had \$8.3 million in nonperforming assets, excluding government guaranteed loan balances, are included in and their ACL represented 1.64% of total loans HFI at amortized cost. At

December 31, 2022, the collectively evaluated portfolio balances. The loss factors for each segment are calculated using actual loan loss history for each segment of loans over the most recent one to three years, depending on the segment and vintage year of the loans in the segment of government guaranteed loans. The Bank's actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment.

These economic factors include consideration of the following: levels of, and trends in delinquencies and impaired loans; levels of, and trends in charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

While management believes its ALLL is adequate as of December 31, 2022, future adjustments to its allowance may be necessary if economic conditions differ substantially from the assumptions used in making the determination.

Nonperforming Assets. At December 31, 2022, we Company had \$3.7 million in nonperforming assets, excluding government guaranteed loan balances, and its their ALLL represented 1.29% of total loans held for investment at amortized cost. At December 31, 2021, we had \$4.0 million in nonperforming assets, excluding government guaranteed loan balances, and its ALLL represented 2.34% of total loans held for investment HFI at amortized cost. Total loans held for investment HFI at December 31, 2022 December 31, 2023 and December 31, 2021 2022 included government guaranteed loans and loans measured at fair value, which had no reserves allocated to them. ALLL ACL as a percentage of loans held for investment HFI at amortized cost, not including government guaranteed loan balances, was 1.62% 2.03% under CECL at December 31, 2022 December 31, 2023, compared to 4.07% 1.62% under the incurred loss method at December 31, 2021 December 31, 2022. The decrease was the result of the reduction in qualitative factors which were elevated as a result of the uncertainty of the impact of the COVID-19 pandemic.

The following table sets forth certain information on nonaccrual loans 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)	December 31, 2022	December 31, 2021
Nonperforming loans (government guaranteed balances)	\$ 6,797	\$ 7,942
Nonperforming loans (unguaranteed balances)	3,671	3,967
Total nonperforming loans	10,468	11,909
OREO	56	3
Total nonperforming assets	\$ 10,524	\$ 11,912
Nonperforming loans as a percentage of total loans held for investment	1.44 %	2.04 %
Nonperforming loans (excluding government guaranteed balances) to total loans held for investment	0.50 %	0.68 %
Nonperforming assets as a percentage of total assets	1.12 %	1.30 %
Nonperforming assets (excluding government guaranteed balances) to total assets	0.40 %	0.43 %
ALLL to nonperforming loans	86.42 %	112.96 %
ALLL to nonperforming loans (excluding government guaranteed balances)	246.42 %	339.10 %

(Dollars in thousands)	December 31, 2023	December 31, 2022
Nonperforming loans (government guaranteed balances), at amortized cost, gross	\$ 1,424	\$ 6,797
Nonperforming loans (unguaranteed balances), at amortized cost, gross	8,264	3,671
Total nonperforming loans, at amortized cost, gross	9,688	10,468
Nonperforming loans (government guaranteed balances), at fair value	—	—
Nonperforming loans (unguaranteed balances), at fair value	648	—
Total nonperforming loans, at fair value	648	—
OREO	—	56
Total nonperforming assets, gross	\$ 10,336	\$ 10,524
Nonperforming loans as a percentage of total loans HFI ⁽¹⁾	1.18 %	1.49 %
Nonperforming loans (excluding government guaranteed balances) to total loans HFI ⁽¹⁾	1.00 %	0.52 %
Nonperforming assets as a percentage of total assets	0.92 %	1.12 %
Nonperforming assets (excluding government guaranteed balances) to total assets	0.74 %	0.40 %
ACL to nonperforming loans ⁽¹⁾	139.32 %	86.42 %
ACL to nonperforming loans (excluding government guaranteed balances) ⁽¹⁾	163.32 %	246.42 %

⁽¹⁾ Excludes loans accounted for at fair value

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

(Dollars in thousands)	(Dollars in thousands)	At and for the Year Ended December 31,		(Dollars in thousands)	At and for the Year Ended December 31,			
		2022	2021					
(Dollars in thousands)								
(Dollars in thousands)								
Allowance at beginning of period	Allowance at beginning of period	\$ 13,452	\$ 21,162					
Impact of adopting ASC 326								
Charge-offs:	Charge-offs:							
Commercial real estate	Commercial real estate	(42)	(169)					
Commercial real estate								
Commercial real estate								
Commercial and industrial	Commercial and industrial	(3,632)	(4,919)					
Commercial and industrial - PPP								
Consumer and other	Consumer and other	(669)	(70)					
Total charge-offs	Total charge-offs	(4,343)	(5,158)					
Recoveries:	Recoveries:							
Commercial real estate								
Commercial real estate								
Commercial real estate	Commercial real estate	80	78					
Commercial and industrial	Commercial and industrial	503	863					
Consumer and other	Consumer and other	54	7					
Total recoveries	Total recoveries	637	948					
Net charge-offs	Net charge-offs	(3,706)	(4,210)					
Provision for loan losses								
Provision for credit losses								
Allowance at end of period	Allowance at end of period	\$ 9,046	\$ 13,452					
Net charge-offs to average loans held for investment								
0.57 %								
Allowance as a percent of total loans held for investment at amortized cost								
1.29 %								
Allowance as a percent of loans held for investment at amortized cost, not including government guaranteed loans								
1.62 %								

Allowance as a percent of nonperforming loans	86.42 %	112.96 %				
Total loans held for investment	\$728,652	\$583,948				
Average loans held for investment	\$648,522	\$959,646				
Nonperforming loans (including government guaranteed balances)	\$ 10,468	\$ 11,909				
Nonperforming loans (excluding government guaranteed balances)	\$ 3,671	\$ 3,967				
Net charge-offs to average loans						
HFI at amortized cost			Net charge-offs to average loans HFI at amortized cost	1.17	%	0.60 %
Allowance as a percent of total loans HFI at amortized cost						
Allowance as a percent of loans HFI at amortized cost, not including government guaranteed loans			Allowance as a percent of total loans HFI at amortized cost	1.64	%	1.29 %
Allowance as a percent of loans HFI at amortized cost, not including government guaranteed loans						
Allowance as a percent of nonperforming loans at amortized cost, gross			Allowance as a percent of nonperforming loans at amortized cost, gross	2.03	%	1.62 %
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	\$158,760	\$250,971			

The following table details net charge-offs to average loans outstanding by loan category for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

	Year Ended December 31, 2022			Year Ended December 31, 2021			Year Ended December 31, 2023			Year Ended December 31, 2023		
	(Dollars in thousands)	(Dollars in thousands)	Average Net Charge- off/(Recovery) HFI	Average Net Charge- off/(Recovery) HFI	(Dollars in thousands)	Average Net Charge- off/(Recovery) HFI	Average Net Charge- off/(Recovery) HFI	(Dollars in thousands)	Average Net Charge- off/(Recovery) HFI	Average Net Charge- off/(Recovery) HFI	(Dollars in thousands)	

Residential real estate	Residential real estate	\$ —	\$ 120,287	— %	\$ 62,110	— %	Residential real estate	\$ 8	\$ 218,727	— %	\$ —	
Commercial real estate	Commercial real estate	(38)	250,592	(0.02)	91	176,506	0.05					
Commercial and industrial	Commercial and industrial	3,129	212,013	1.48	4,056	177,445	2.29					
Commercial and industrial - PPP	Commercial and industrial - PPP	—	39,959	—	—	537,710	—					
Consumer and other	Consumer and other	615	25,671	2.40	63	5,875	1.07					
Total loans held for investment		\$ 3,706	\$ 648,522	0.57 %	\$ 4,210	\$ 959,646	0.44 %					
Total loans HFI, at amortized cost								Total loans HFI, at amortized cost	\$ (8,987)	\$ 770,793	(1.17) %	\$ (3,706)

The Bank recorded a negative provision of \$700 thousand during the year ended December 31, 2022, compared to a negative provision of \$3.5 million for the same period in 2021. During 2020 and the first quarter of 2021, the Bank increased the qualitative factors in the allowance for loan losses calculation to reflect the decline in economic indicators caused by the COVID-19 pandemic, resulting in significant provision expense in those periods. As asset quality has remained stable and as many of the Company's SBA loans were bolstered by additional government support, the current year decrease in the allowance is deemed appropriate. Since 2016, the Company's loan losses have been incurred primarily in its SBA unguaranteed loan portfolio, particularly loans originated under the SBA 7(a) Small Loan Program. The Small Loan Program represents loans of \$350 thousand or less and such loans carry an SBA guarantee of 75% to 90% of the loan, depending on the original principal balance. The default rate on loans originated in the SBA 7(a) Small Loan Program is significantly higher than the Bank's other SBA 7(a) loans, conventional commercial loans, or residential mortgage loans.

Nonperforming assets to total assets, excluding government guaranteed loan balances, were 0.40% 0.74% as of December 31, 2022 December 31, 2023, as compared to 0.43% 0.40% as of December 31, 2021 December 31, 2022. Since the majority of the Company's loan portfolio consisted of SBA loans, most of which received from the SBA principal and interest payments under Section 1112 of the CARES Act during 2020 and 2021, asset quality trends may appear more favorable than they otherwise would without the SBA's support under the CARES Act. As of December 31, 2022, there were no loans under payment deferral as a result of COVID-19 pandemic.

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 Year Ended December 31,			
(Dollars in thousands)					
(Dollars in thousands)					
Government Guaranteed, Excluding PPP					
Government Guaranteed, Excluding PPP					
Government Guaranteed, Excluding PPP	Government Guaranteed, Excluding PPP				
PPP	PPP	2022	2021		
Number of loans originated	Number of loans originated				
Number of loans originated		1,364	374		
Number of loans originated					
Amount of loans originated	Amount of loans originated				
Amount of loans originated					
Amount of loans originated	Amount of loans originated	\$ 386,024	\$ 169,467		
Average loan size originated	Average loan size originated	\$ 283	\$ 453		
Average loan size originated					
Government guaranteed loan balances sold					

Government guaranteed loan balances sold					
Government guaranteed loan balances sold	Government guaranteed loan balances sold	\$	311,783	\$	44,854
Government unguaranteed loan balances sold	Government unguaranteed loan balances sold	\$	13,803	\$	5,034
Government unguaranteed loan balances sold	Government unguaranteed loan balances sold				
Total government guaranteed loans					
Total government guaranteed loans					
Total government guaranteed loans	Total government guaranteed loans	\$	300,219	\$	300,415
Government guaranteed loan balances	Government guaranteed loan balances	\$	139,587	\$	171,548
Government guaranteed loan balances	Government guaranteed loan balances				
Government unguaranteed loan balances	Government unguaranteed loan balances				
Government unguaranteed loan balances	Government unguaranteed loan balances				
Government unguaranteed loan balances	Government unguaranteed loan balances				
Government unguaranteed loan balances	Government unguaranteed loan balances	\$	160,632	\$	128,867
Government guaranteed loans serviced for others	Government guaranteed loans serviced for others	\$	660,600	\$	459,670
Government guaranteed loans serviced for others	Government guaranteed loans serviced for others				
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 **SBA government guaranteed** loan portfolio. The "All Other" category includes states with less than 5% in any period presented.

(Dollars in thousands)	December 31,			
	2022		2021	
	Amount	% of Total	Amount	% of Total
Florida	\$ 91,760	31 %	\$ 89,143	30 %
California	35,365	12	32,924	11
Texas	22,378	7	20,976	7
Tennessee	19,598	7	2,629	1
All Other	131,118	43	154,743	51
Total government guaranteed loans, excluding PPP loans	<u>\$ 300,219</u>	<u>100 %</u>	<u>\$ 300,415</u>	<u>100 %</u>

Residential Mortgage Loans

The following table sets forth, for the periods indicated, information regarding the residential mortgage lending activity from discontinued operations.

(Dollars in thousands)	For the Year Ended December 31,	
	2022	
	Amount	2021
Number of loans originated	2,779	7,265
Amount of loans originated	\$ 946,120	\$ 2,222,078
Average loan size originated	\$ 340	\$ 306
Loan balances sold	\$ 932,118	\$ 2,316,413

(Dollars in thousands)	December 31,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Florida	\$ 123,418	31 %	\$ 91,760	31 %
California	45,661	12	35,365	12
Tennessee	32,185	8	22,378	7
Texas	24,861	6	19,598	7
All Other	169,752	43	131,118	43
Total government guaranteed loans, excluding PPP loans	<u>\$ 395,877</u>	<u>100 %</u>	<u>\$ 300,219</u>	<u>100 %</u>

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 deposit accounts, and retirement savings plans (such as IRA accounts).

Certificate of 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 December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company had \$746 thousand \$30.0 million and \$759 \$746 thousand, 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)	December 31, 2022		December 31, 2021		(Dollars in thousands)	December 31, 2023			December 31, 2022		
		2022	2021	2021	2020		2023	2022	2023	2022	2021	2023
Noninterest-bearing deposits	Noninterest-bearing deposits	\$ 93,235	11.8 %	\$ 83,638	11.6 %	Noninterest-bearing deposits	\$ 93,708	9.5	9.5 %	\$ 93,235	11.8	11.8 %
Interest-bearing transaction accounts	Interest-bearing transaction accounts	202,656	25.5	163,495	22.7							
Money market accounts	Money market accounts	345,200	43.4	408,257	56.5							
Savings	Savings	17,853	2.2	15,607	2.2							
Subtotal	Subtotal	658,944	82.9	670,997	93.0							
Total time deposits	Total time deposits	136,126	17.1	50,688	7.0							
Total deposits	Total deposits	\$795,070	100.0 %	\$721,685	100.0 %	Total deposits	\$ 985,138	100.0	100.0 %	\$ 795,070	100.0	100.0 %

At December 31, 2022 December 31, 2023, the Company held approximately \$308.4 million \$162.3 million of deposits that exceeded the FDIC insurance limit, which was 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 December 31, 2022 December 31, 2023.

(Dollars in thousands)

Three months or less	\$ 3,386	11,804
Over three months through six months	8,991	15,724
Over six months through 12 months	37,851	32,385
Over 12 months	5,050	48,056
Total	\$ 55,278	107,969

Deposits increased \$190.1 million or 23.91% during the year ended 2023, with growth in all deposit types. There was growth in transaction accounts (noninterest bearing and interest bearing transaction accounts) of \$57.2 million or 19.3%, savings and money market account balances of \$9.9 million or 2.7%, and time deposit balances of \$122.9 million, or 90.3%.

Other Borrowings

At December 31, 2022 December 31, 2023, the Company had short-term FRB \$10.0 million of borrowings of \$25.0 million at 4.50% 5.57% from the FHLB and no borrowings from the FHLB, FRB. There were \$25.0 million of borrowings at 4.50% from the FRB and no borrowings from the FHLB or FRB at December 31, 2021 December 31, 2022.

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 \$210.8 million \$285.9 million of real estate-related loans as of December 31, 2022 December 31, 2023. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow up to an additional \$128.6 million \$153.5 million from the FHLB at December 31, 2022 December 31, 2023.

In addition, the Bank has a line of credit with the Federal Reserve Bank of Atlanta which was secured by \$62.5 million \$57.7 million of commercial loans as of December 31, 2022 December 31, 2023. 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 an additional \$17.0 million \$40.4 million from the FRB at December 31, 2022 December 31, 2023.

In June 2021, the Company issued \$6.0 \$6.0 million of Subordinated Debentures (the "Debentures") that mature June 30, 2031 and are redeemable after five 5 years. The Debentures carry interest at a fixed rate of 4.50% per annum for the initial five 5 years of their term and carry interest at a floating rate for the final five 5 years of their term. Under the terms of the Debentures, debt agreements, the floating rates are based on a SOFR benchmark plus 3.78% per annum. The Debentures were issued to redeem a \$6.0 million Subordinated Debenture which was issued in December 2018 and which carried interest at a fixed rate of 6.875% per annum. The balance of Subordinated Debentures outstanding at the Company, net of offering costs, amounted to \$6.0 million \$5.9 million and \$6.0 million at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.

In March 2020, the Company renegotiated the terms of its outstanding senior debt and combined its line of credit and has a term note into one amortizing note with quarterly principal and interest payments with interest at Prime (6.25% 8.50% at December 31, 2022 December 31, 2023). The note matures on March 10, 2029 and the balance of the note was \$2.8 million \$2.4 million and \$3.3 million \$2.8 million at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, 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.

In April 2020, As of December 31, 2023, the Company entered into the Federal Reserve Bank's PPPLF. Under the PPPLF, advances were secured by pledges of loans to small businesses originated by the Company under the PPP. The PPPLF accrued interest at 0.35% per annum and matured at various dates equal to the maturity date of the PPPLF collateral pledged to secure the advance, and accelerated on and to the extent of any PPP loan forgiveness reimbursement by the SBA for any PPPLF collateral or the date of purchase by the SBA from the borrower of any PPPLF collateral. On the maturity date of each advance, the Company repaid the advance plus accrued interest. The balance outstanding on this facility was \$69.7 million at December 31, 2021. In the first quarter of 2022, the Company repaid the remaining balance of the advance, 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 decreased increased \$4.4 million \$8.8 million to \$100.7 million at December 31, 2023 as compared to \$91.9 million at December 31, 2022 as compared to \$96.3 million at December 31, 2021. The decrease increase was primarily due to net income of \$5.7 million and the result issuance of an increase of \$3.3 million of accumulated other comprehensive loss due to increases in net unrealized losses on available for sale investment securities, net loss of \$349 thousand, dividend declared on its preferred stock of \$832 thousand, and dividends declared on its common stock \$6.4 million. This was partially offset by the implementation of \$1.3 million during the year ended December 31, 2022 new credit loss accounting standard. As a result of the accounting change, equity was reduced by \$2.5 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 has elected not to use the CBLR framework.

At **December 31, 2022** December 31, 2023 and **December 31, 2021** December 31, 2022, 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 as shown in the table below:

	Well Capitalized ⁽¹⁾						Well Capitalized ⁽²⁾						
	Actual		Minimum ⁽¹⁾		Capitalized ⁽²⁾		Actual		Minimum ⁽¹⁾		Capitalized ⁽²⁾		
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	
<u>As of December 31, 2022</u>													
<u>As of December 31, 2023</u>													
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 %	\$114,256	13.03	13.03 %	\$70,169	8.00 %	\$87,711	10.00 %
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)	99,269	13.75	32,494	4.50	46,936	6.50							
Tier 1 Capital (to total assets)	99,269	10.79	36,816	4.00	46,020	5.00							
<u>As of December 31, 2021</u>													
<u>As of December 31, 2022</u>													
Total Capital (to risk-weighted assets)													

Total Capital (to risk-weighted assets)							
Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)	106,002	21.25	39,909	8.00	49,886	10.00
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)	99,656	19.98	29,932	6.00	39,909	8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	Common Equity Tier 1 Capital (to risk-weighted assets)	99,656	19.98	22,449	4.50	32,426	6.50
Tier 1 Capital (to total assets)	Tier 1 Capital (to total assets)	99,656	12.22	32,619	4.00	40,774	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 as follows:

(Dollars in thousands)	December			(Dollars in thousands)	December 31, 2023	December 31, 2022
	31, 2022	31, 2021				
Unfunded loan commitments	Unfunded loan commitments	\$ 23,512	\$ 18,567			
Unused lines of credit	Unused lines of credit	134,366	52,076			
Standby letters of credit	Standby letters of credit	244	68			
Total	Total	\$ 158,122	\$ 70,711			

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 **counterparty** 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 **issued** 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. **Newly issued or modified guarantees that are not derivative contracts have been recorded on the Bank's balance sheet at their fair value at inception.**

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 December 31, 2023 and December 31, 2022, ACL for off-balance sheet loan commitments totaled \$839 thousand and \$511 thousand, respectively.

Contractual Obligations

In the ordinary course of its operations, the Company enters into certain contractual obligations. Total contractual obligations at December 31, 2022 December 31, 2023 were \$174.9 million \$280.7 million, an increase of \$39.9 million \$105.8 million from \$135.0 million \$174.9 million at December 31, 2021 December 31, 2022. The increase was primarily due to an increase in time deposits of \$85.4 million and an increase in short-term FRB borrowings of \$25.0 million, partially offset by the payoff of \$69.7 million in PPP Liquidity Facility. \$122.9 million.

The following tables present our contractual obligations as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

Contractual Obligations as of December 31, 2022										Contractual Obligations as of December 31, 2023				
(Dollars in thousands)	(Dollars in thousands)	Contractual Obligations as of December 31, 2023					Contractual Obligations as of December 31, 2023							
		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			
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	—	—	—	2,844	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								
Contractual Obligations as of December 31, 2021														
Contractual Obligations as of December 31, 2022														
Contractual Obligations as of December 31, 2022														
Contractual Obligations as of December 31, 2022														
(Dollars in thousands)	(Dollars in thousands)	Contractual Obligations as of December 31, 2022					Contractual Obligations as of December 31, 2022							
		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			
Operating lease obligations	Operating lease obligations	\$ 1,454	\$ 2,249	\$ 1,279	\$ 301	\$ 5,283								
Short-term borrowings	Short-term borrowings	—	—	—	3,299	3,299								
Long-term borrowings	Long-term borrowings	—	—	—	3,299	3,299								
PPP Liquidity Facility	PPP Liquidity Facility	44,647	—	25,007	—	69,654								
Subordinated notes	Subordinated notes	—	50	—	6,000	6,050								
Time deposits	Time deposits	40,868	9,210	610	—	50,688								
Total	Total	\$ 86,969	\$11,459	\$26,896	\$9,650	\$134,974								

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 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 December 31, 2022 December 31, 2023 was 12.58% 9.33%, as compared to 16.76% at December 31, 2021.

During the year ended December 31, 2022, the Bank purchased additional investment securities, some of which were classified as investment securities available for sale. The fair value of all of the investment securities available for sale totaled \$42.3 million 12.58% at December 31, 2022.

During each of 2022, the quarters of 2021 and Bank paid quarterly dividends totaling \$1.75 million to BayFirst. During the first two quarters of 2022 2023, the Bank paid a dividend of \$250 thousand quarterly dividends totaling \$2.50 million to BayFirst. The In 2023, BayFirst issued 6,446 shares of 11.0% Series C Cumulative Convertible Preferred Stock with gross proceeds of \$6.4 million of which \$4.3 million of the capital was injected to the Bank also paid a \$500 thousand dividend in the third quarter of 2022 to support its growth and a \$750 thousand dividend in the fourth quarter of 2022 to BayFirst operations. Prior to that, 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 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, and common stock, and payment of certain operating expenses. As of December 31, 2022 December 31, 2023, BayFirst Financial Corp. held \$559 \$954 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 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 7A. 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. Its market 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 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, we monitor 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 December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, assuming immediate parallel moves in interest rates, is presented in the table below.

December 31, 2022				December 31, 2021				December 31, 2023				December 31, 2022			
Change in rates	December 31, 2023			December 31, 2021			Change in rates	December 31, 2023			December 31, 2021			December 31, 2022	
	Following 12 months	Following 24 months	Following 36 months	Following 12 months	Following 24 months	Following 36 months		Following 12 months	Following 24 months	Following 36 months	Following 12 months	Following 24 months	Following 36 months	Following 12 months	Following 24 months
+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points	+400 basis points
+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points	+300 basis points

+200	+200				
basis	basis				
points	points	5.4	6.1	13.1	16.8
+100	+100				
basis	basis				
points	points	1.3	1.8	3.6	4.9
-100	-100				
basis	basis				
points	points	(3.8)	(4.4)	(13.3)	(16.7)
-200	-200				
basis	basis				
points	points	(8.3)	(9.5)	(26.4)	(32.3)

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 December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, 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 December 31, 2022	Change December 31, 2021	Change in rates	December 31, 2023	December 31, 2022
+400	+400				
basis	basis				
points	points	(12.7) %	1.7 %	+400 basis points	
				(6.3) %	
+300	+300				
basis	basis				
points	points	(9.5)	1.9		
+200	+200				
basis	basis				
points	points	(7.0)	0.8		
+100	+100				
basis	basis				
points	points	(4.3)	(0.5)		
-100	-100				
basis	basis				
points	points	2.6	(3.5)		
-200	-200				
basis	basis				
points	points	5.0	(10.8)		

Item 8. Financial Statements

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
BayFirst Financial Corp.
St. Petersburg, Florida

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of BayFirst Financial Corp. (the "Company") as of December 31, 2022 December 31, 2023 and 2021, 2022, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2022 December 31, 2023, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present

fairly, in all material respects, the financial position of the Company as of December 31, 2022 December 31, 2023 and 2021, 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022 December 31, 2023, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

(Formerly Dixon Hughes Goodman LLP) Change in Accounting Principle

As discussed in Notes 1 and 5 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments - Credit Losses*.

/s/ FORVIS, LLP

We have served as the Company's auditor since 2018.

Tampa, Florida

March 27, 2023 28, 2024

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

		December 31, 2022	December 31, 2021		
		December 31, 2023		December 31, 2022	
ASSETS	ASSETS				
ASSETS					
ASSETS					
Cash and due from banks					
Cash and due from banks					
Cash and due from banks	Cash and due from banks	\$ 3,649	\$ 2,869		
Interest-bearing deposits in banks	Interest-bearing deposits in banks	62,397	106,858		
Cash and cash equivalents	Cash and cash equivalents	66,046	109,727		
Time deposits in banks	Time deposits in banks	4,881	2,381		
Investment securities available for sale		42,349	30,893		
Investment securities held to maturity		5,002	2		

Investment securities available for sale, at fair value (amortized cost: \$43,597 and \$47,374 at December 31, 2023 and December 31, 2022, respectively)			
Investment securities held to maturity, at amortized cost, net of allowance for credit losses of \$17 and \$0 (fair value: \$2,263 and \$4,755 at December 31, 2023 and December 31, 2022, respectively)			
Nonmarketable equity securities	Nonmarketable equity securities	4,037	2,827
Government guaranteed loans held for sale		—	1,460
SBA loans held for investment, at fair value		27,078	9,614
Loans held for investment, at amortized cost net of allowance for loan losses of \$9,046 and \$13,452		692,528	560,882
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 \$13,497 and \$9,046 at December 31, 2023 and December 31, 2022, respectively			
Accrued interest receivable	Accrued interest receivable	4,452	3,532
Premises and equipment, net	Premises and equipment, net	35,440	29,091
Loan servicing rights	Loan servicing rights	10,906	6,407
Deferred income tax asset	Deferred income tax asset	980	454
Right-of-use operating lease assets	Right-of-use operating lease assets	3,177	3,263
Bank owned life insurance	Bank owned life insurance	25,159	24,547
Other assets	Other assets	15,649	13,634
Assets from discontinued operations	Assets from discontinued operations	1,211	118,381
Total assets	Total assets	\$938,895	\$917,095

LIABILITIES AND SHAREHOLDERS' EQUITY		LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:		Liabilities:	
Noninterest-bearing deposits		Noninterest-bearing deposits	
Noninterest-bearing deposits	Noninterest-bearing deposits	\$ 93,235	\$ 83,638
Interest-bearing transaction accounts	Interest-bearing transaction accounts	202,656	163,495
Savings and money market deposits	Savings and money market deposits	363,053	423,864
Time deposits	Time deposits	136,126	50,688
Total deposits	Total deposits	795,070	721,685
FRB borrowings		25,000	—
FRB and FHLB borrowings			
Subordinated debentures	Subordinated debentures	5,992	5,985
Notes payable	Notes payable	2,844	3,299
PPP Liquidity Facility		—	69,654
Accrued interest payable			
Accrued interest payable			
Accrued interest payable	Accrued interest payable	704	326
Operating lease liabilities	Operating lease liabilities	3,538	3,431
Deferred income tax liabilities			
Accrued expenses and other liabilities	Accrued expenses and other liabilities	12,205	8,965
Liabilities from discontinued operations	Liabilities from discontinued operations	1,658	7,460
Total liabilities	Total liabilities	847,011	820,805

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

		December 31, 2022	December 31, 2021	
		December 31, 2023		December 31, 2022
Shareholders' equity:	Shareholders' equity:			
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding at December 31, 2022 and December 31, 2021; 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 December 31, 2022 and December 31, 2021; aggregate liquidation preference of \$3,210	3,123	3,123		

Common stock and additional paid-in capital; no par value, 15,000,000 shares authorized, 4,042,474 and 3,981,117 shares issued and outstanding at December 31, 2022 and December 31, 2021, respectively	53,023	51,496
Shareholders' equity:		
Shareholders' equity:		
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding at December 31, 2023 and December 31, 2022; aggregate liquidation preference of \$6,395		
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding at December 31, 2023 and December 31, 2022; aggregate liquidation preference of \$6,395		
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding at December 31, 2023 and December 31, 2022; aggregate liquidation preference of \$6,395		
Preferred stock, Series B; no par value, 20,000 shares authorized, 3,210 shares issued and outstanding at December 31, 2023 and December 31, 2022; aggregate liquidation preference of \$3,210		
Preferred stock, Series C; no par value, 10,000 shares authorized, 6,446 shares issued and outstanding at December 31, 2023 and no shares issued and outstanding at December 31, 2022; aggregate liquidation preference of \$6,446 at December 31, 2023		

Common stock and additional paid-in capital; no par value, 15,000,000 shares authorized, 4,110,470 and 4,042,474 shares issued and outstanding at December 31, 2023 and December 31, 2022, respectively	
Accumulated other comprehensive loss, net	Accumulated other comprehensive loss, net (3,724) (420)
Unearned compensation	Unearned compensation (178) (17)
Retained earnings	Retained earnings 33,479 35,947
Total shareholders' equity	Total shareholders' equity 91,884 96,290
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity \$938,895 \$917,095

See accompanying notes.

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

		Year Ended December 31,			
		2022	2021		
		Year Ended December 31,			
		Year Ended December 31,			
		Year Ended December 31,			
		Year Ended December 31,			
		2023			
Interest income: Interest income:				2023	2022
Loans, including fees					
Loans, including fees					
Loans, including fees	Loans, including fees	\$36,492	\$43,256		
Interest- bearing deposits in banks and other	Interest- bearing deposits in banks and other	2,074	570		
Total interest income	Total interest income	38,566	43,826		
Interest expense:					
Deposits		7,844	4,885		
Deposits					

Deposits			
Borrowings	Borrowings	722	2,415
Total interest expense	Total interest expense	8,566	7,300
Net interest income	Net interest income	30,000	36,526
Provision for loan losses		(700)	(3,500)
Net interest income after provision for loan losses		30,700	40,026
Provision for credit losses			
Net interest income after provision for credit losses			
Noninterest income:	Noninterest income:		
Loan servicing income, net			
Loan servicing income, net			
Loan servicing income, net	Loan servicing income, net	2,040	1,864
Gain on sale of government guaranteed loans, net	Gain on sale of government guaranteed loans, net	21,720	18,024
Service charges and fees	Service charges and fees	1,306	1,027
SBA loan fair value gain		4,756	184
Government guaranteed loans fair value gain			
Other noninterest income	Other noninterest income	1,728	874
Total noninterest income	Total noninterest income	31,550	21,973
Noninterest expense:	Noninterest expense:		
Salaries and benefits	Salaries and benefits	27,422	24,879
Salaries and benefits			
Bonus, commissions, and incentives	Bonus, commissions, and incentives	2,394	3,216
Occupancy and equipment			
Occupancy and equipment			
Occupancy and equipment	Occupancy and equipment	3,995	3,214

Data processing	Data processing	4,828	5,288
Marketing and business development	Marketing and business development	2,660	2,698
Professional services	Professional services	4,083	3,907
Loan origination and collection	Loan origination and collection	3,711	2,452
Employee recruiting and development	Employee recruiting and development	2,230	1,714
Regulatory assessments	Regulatory assessments	457	442
Other noninterest expense	Other noninterest expense	3,432	2,469
Other noninterest expense			
Other noninterest expense			
Total noninterest expense	Total noninterest expense	55,212	50,279
Income from continuing operations before income taxes	Income from continuing operations before income taxes	7,038	11,720
Income tax expense from continuing operations	Income tax expense from continuing operations	1,560	2,691
Net income from continuing operations	Net income from continuing operations	5,478	9,029
Income (loss) from discontinued operations before income taxes	(7,759)	20,758	
Income tax expense (benefit) from discontinued operations	(1,932)	5,169	
Net income (loss) from discontinued operations	(5,827)	15,589	
Loss from discontinued operations before income taxes			
Loss from discontinued operations before income taxes			
Loss from discontinued operations before income taxes			
Income tax benefit from discontinued operations			
Net loss from discontinued operations			
Net income (loss)			
Net income (loss)			
Net income (loss)	Net income (loss)	(349)	24,618
Preferred stock dividends	Preferred stock dividends	832	1,005

Net income available to (loss attributable to) common shareholders	Net income available to (loss attributable to) common shareholders	\$ (1,181)	\$ 23,613
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BAYFIRST FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME CONTINUED
(Dollars in thousands, except per share data)

	Year Ended December 31,		
	2022	2021	
	Year Ended December 31,		
	2023		
		2023	
			2022
Basic earnings (loss) per common share:	Basic earnings (loss) per common share:		
Continuing operations			
Continuing operations			
Continuing operations	Continuing operations	\$ 1.16	\$ 2.11
Discontinued operations	Discontinued operations	(1.45)	4.10
Total basic earnings (loss) per common share	Total basic earnings (loss) per common share		
	\$ (0.29)	\$ 6.21	
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			
Continuing operations	Continuing operations	\$ 1.16	\$ 2.08
Discontinued operations	Discontinued operations	(1.38)	3.83
Total diluted earnings (loss) per common share	Total diluted earnings (loss) per common share		
	\$ (0.22)	\$ 5.91	

See accompanying notes.

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

	Year Ended December 31,	
	2022	2021
Net income (loss)	\$ (349)	\$ 24,618
Net unrealized losses on investment securities available for sale	(4,454)	(571)
Deferred income tax benefit	1,150	151
Other comprehensive loss, net	(3,304)	(420)
Comprehensive income (loss)	\$ (3,653)	\$ 24,198

	Year Ended December 31,	
	2023	2022
Net income (loss)	\$ 5,702	\$ (349)
Net unrealized gains (losses) on investment securities available for sale	1,003	(4,454)
Deferred income tax (expense) benefit	(260)	1,150
Other comprehensive income (loss), net	743	(3,304)
Comprehensive income (loss)	\$ 6,445	\$ (3,653)

See accompanying notes.

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

	Preferred Stock, Series A	Preferred Stock, Series A	Preferred Stock, Series A	Common Stock, Additional Paid-in Capital, Other Stock, Stock, and Unearned Compensation	Accumulated Retained Income (Loss)	Earnings				
Balance at January 1, 2022										
Net loss										
	Preferred	Preferred	Preferred	Common Stock	Other	Accumulated				
	Shares,	Shares, Series	Common	Stock,	Stock, and Additional	Comprehensive Unearned Retained				
	Series A	B	Shares(¹)	Series A	Series B	Income (Loss)	Compensation	Earnings	Total	
Balance at January 1, 2021	6,395	8,760	3,485,018	\$ 6,161	\$ 8,516	\$ 43,043	—	\$ (41)	\$ 13,390	\$ 71,069
Net income	—	—	—	—	—	—	—	—	24,618	24,618

Issuance of common stock under:										
Issuance of common stock under:										
Issuance of common stock under:										
Non-qualified stock purchase plan	Non-qualified stock purchase plan	—	—	36,494	—	—	662	—	—	—
Dividend reinvestment plan	Dividend reinvestment plan	—	—	17,971	—	—	389	—	—	389
Employee stock ownership plan	Employee stock ownership plan	—	—	24,920	—	—	366	—	—	366
Issuance of preferred stock, net	Issuance of preferred stock, net	—	740	—	—	727	—	—	—	727
Issuance of common stock, net	Issuance of common stock, net	—	—	43,471	—	—	856	—	—	856
Unearned ESOP shares allocation	Unearned ESOP shares allocation	—	—	—	—	—	(371)	—	—	(371)
Stock-based awards - common stock:	Stock-based awards - common stock:	—	—	—	—	—	—	—	—	—
Restricted stock expense, net of tax impact	Restricted stock expense, net of tax impact	—	—	2,031	—	—	25	—	24	—
Stock option expense	Stock option expense	—	—	—	—	—	406	—	—	406
Conversion of Series B preferred stock to common stock	Conversion of Series B preferred stock to common stock	—	(6,290)	371,212	—	(6,120)	6,120	—	—	—
Other comprehensive loss, net	Other comprehensive loss, net	—	—	—	—	—	—	(420)	—	—
Dividends declared on:	Dividends declared on:	—	—	—	—	—	—	—	—	—
Preferred stock	Preferred stock	—	—	—	—	—	—	—	(1,005)	(1,005)
Common stock (\$0.277 per share)	Common stock (\$0.277 per share)	—	—	—	—	—	—	—	(1,056)	(1,056)
Balance at December 31, 2021		6,395	3,210	3,981,117	\$ 6,161	\$ 3,123	\$ 51,496	\$ (420)	\$ (17)	\$ 35,947
Balance at January 1, 2022		6,395	3,210	3,981,117	\$ 6,161	\$ 3,123	\$ 51,496	\$ (420)	\$ (17)	\$ 35,947
Net loss	Net loss	—	—	—	—	—	—	—	(349)	(349)
Issuance of common stock under:										
Non-qualified stock purchase plan										
Non-qualified stock purchase plan	Non-qualified stock purchase plan	—	—	19,354	—	—	334	—	—	334
Dividend reinvestment plan	Dividend reinvestment plan	—	—	15,290	—	—	252	—	—	252
Employee stock ownership plan	Employee stock ownership plan	—	—	—	—	—	71	—	—	71
Repurchase of common stock	Repurchase of common stock	—	—	(2,212)	—	—	(49)	—	—	(49)
Exercise of stock options, net	Exercise of stock options, net	—	—	1,431	—	—	—	—	—	—
Repurchase of common stock										
Repurchase of common stock										
Issuance of common stock, net	Issuance of common stock, net	—	—	750	—	—	13	—	—	13
Unearned ESOP shares allocation	Unearned ESOP shares allocation	—	—	—	—	—	(15)	—	—	(15)
Issuance of common stock, net	Issuance of common stock, net	—	—	—	—	—	—	—	—	—
Issuance of common stock, net	Issuance of common stock, net	—	—	—	—	—	—	—	—	—

Reclassification of unearned ESOP shares allocation											
Reclassification of unearned ESOP shares allocation											
Reclassification of unearned ESOP shares allocation											
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	—	—	26,744	—	—	618	—	(161)		
Stock option expense	Stock option expense	—	—	—	—	—	303	—	—		
Other comprehensive loss, net	Other comprehensive loss, net	—	—	—	—	—	—	(3,304)	—		
Other comprehensive loss, net							—	—	(3,304)		
Dividends declared on:	Dividends declared on:										
Preferred stock	Preferred stock	—	—	—	—	—	—	—	(832)		
Common stock (\$0.32 per share)	Common stock (\$0.32 per share)	—	—	—	—	—	—	—	(1,287)		
Balance at December 31, 2022	Balance at December 31, 2022	6,395	3,210	4,042,474	\$ 6,161	\$ 3,123	\$ 53,023	\$ (3,724)	\$ (178)	\$ 33,479	\$ 91,884

[\(1\) Table of Contents](#) Common shares for all periods shown herein reflect the three-for-two stock split, effective on May 10, 2021.

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

	Common Stock, Additional Paid-in Capital, and Unearned Compensation							Accumulated Other Comprehensive Income (Loss)		Retained Earnings	Total
	Preferred Stock, Series A	Preferred Stock, Series B	Preferred Stock, Series C								
Balance at January 1, 2023	\$ 6,161	\$ 3,123	\$ —	\$ 52,845	\$ (3,724)	\$ 33,479	\$ 91,884				
Net income	—	—	—	—	—	—	—	—	5,702	5,702	
Impact of ASC 326 Adoption	—	—	—	—	—	—	—	—	(2,508)	(2,508)	
Issuance of common stock under:											
Non-qualified stock purchase plan	—	—	—	206	—	—	—	—	206	206	
Dividend reinvestment plan	—	—	—	159	—	—	—	—	159	159	
Issuance of preferred stock, net	—	—	6,446	—	—	—	—	—	—	6,446	
Repurchase of common stock	—	—	—	(13)	—	—	—	—	(13)	(13)	
Exercise of stock options, net	—	—	—	(49)	—	—	—	—	(49)	(49)	
Unearned ESOP shares allocation	—	—	—	(189)	—	—	—	—	(189)	(189)	

Stock-based awards - common stock:							
Restricted stock expense, net of tax impact	—	—	—	496	—	—	496
Stock option expense	—	—	—	108	—	—	108
Other comprehensive income, net	—	—	—	—	743	—	743
Dividends declared on:							
Preferred stock	—	—	—	—	—	(965)	(965)
Common stock (\$0.32 per share)	—	—	—	—	—	(1,313)	(1,313)
Balance at December 31, 2023	\$ 6,161	\$ 3,123	\$ 6,446	\$ 53,563	\$ (2,981)	\$ 34,395	\$ 100,707

See accompanying notes.

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

		Year Ended December 31,			
		2022	2021		
		Year Ended December 31,		Year Ended December 31,	
		2023		2023	2022
Cash flows from operating activities:	Cash flows from operating activities:				
Net income from continuing operations	Net income from continuing operations	\$ 5,478	\$ 9,029		
Net income (loss) from discontinued operations	(5,827)	15,589			
Net income from continuing operations					
Net income from continuing operations					
Net loss from discontinued operations					
Net income (loss)	Net income (loss)	(349)	24,618		
Adjustments to reconcile net income (loss) to net cash from operating activities:	Adjustments to reconcile net income (loss) to net cash from operating activities:				
Depreciation of fixed assets	Depreciation of fixed assets	1,715	1,343		
Depreciation of fixed assets	Depreciation of fixed assets				
Net securities premium amortization	Net securities premium amortization	122	102		
Amortization of debt issuance costs	Amortization of debt issuance costs	—	37		

Amortization of premium (discount) on loans purchased	206	(84)
Provision for loan losses	(700)	(3,500)
Amortization of premium on loans purchased, net		
Provision for credit losses		
Accretion of discount on unguaranteed loans	Accretion of discount on unguaranteed loans	(2,665) (1,923)
Deferred tax expense	Deferred tax expense	424 3,505
Origination of SBA loans held for sale		(2,018) (1,460)
Proceeds from sales of SBA loans held for sale	354,105	394,426
Net gains on sales of SBA loans	(21,720)	(18,024)
Origination of government guaranteed loans held for sale		
Proceeds from sales of government guaranteed loans held for sale		
Net gains on sales of government guaranteed loans		
Change in fair value of SBA loans held for investment, at fair value	(4,756)	(184)
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	3,258 2,982
Net gain on sale of other real estate owned		
Non-qualified stock purchase plan expense	Non-qualified stock purchase plan expense	87 57

Stock based compensation expense	Stock based compensation expense	763	461		
Income from bank owned life insurance	Income from bank owned life insurance	(612)	(364)		
Income from bank owned life insurance					
Income from bank owned life insurance					
Changes in:					
Changes in:					
Changes in:					
Accrued interest receivable					
Accrued interest receivable					
Accrued interest receivable	Accrued interest receivable	(920)	3,721		
Other assets	Other assets	(1,782)	(7,208)		
Accrued interest payable	Accrued interest payable	378	(1,673)		
Other liabilities	Other liabilities	3,347	2,602		
Net cash provided by (used in) operating activities of continuing operations					
		334,710	383,845		
Net cash provided by operating activities of discontinued operations					
		105,541	111,543		
Net cash provided by operating activities of continuing operations					
Net cash provided by (used in) operating activities of discontinued operations					
Net cash provided by operating activities	Net cash provided by operating activities	440,251	495,388		
Cash flows from investing activities:		Cash flows from investing activities:			
Purchase of investment securities available for sale					
Purchase of investment securities available for sale					
Purchase of investment securities available for sale	Purchase of investment securities available for sale	(20,326)	(33,208)		

Principal payments on investment securities available for sale	Principal payments on investment securities available for sale	2,812	1,643
Purchase of investment securities held to maturity	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	50	38
Call of investment securities held to maturity			
Net purchase of nonmarketable equity securities	Net purchase of nonmarketable equity securities	(1,210)	(465)
Purchase of time deposits in banks	Purchase of time deposits in banks	(2,500)	—
Maturity of time deposits in banks			
Purchase of government guaranteed and consumer loans			
Purchase of government guaranteed and consumer loans			
Purchase of government guaranteed and consumer loans	Purchase of government guaranteed and consumer loans	(53,845)	—
Loan (originations) and payments, net	Loan (originations) and payments, net	(423,954)	264,724
Purchase of premises and equipment	Purchase of premises and equipment	(8,064)	(13,115)
Purchase of bank owned life insurance		—	(12,000)
Net cash provided by (used in) investing activities		(510,605)	207,617
Proceeds on sales of other real estate owned			
Net cash used in investing activities			
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
(Dollars in thousands)

		Year Ended December 31,	
		2022	2021
Cash flows from financing activities:	Year Ended December 31,		Year Ended December 31, 2022
	2023	2023	
Net change in deposits	Net change in deposits	73,385	162,901
Net increase in short-term borrowings		25,000	—
Proceeds from issuance of subordinated debt, net of costs		—	6,000
Net change in deposits			
Net change in deposits			
Net increase (decrease) in short-term borrowings			
Payments on notes payable			
Payments on notes payable			
Payments on notes payable	Payments on notes payable	(455)	(455)
Net repayments of PPP	Net repayments of PPP		
Liquidity Facility borrowings	Liquidity Facility borrowings	(69,654)	(811,608)
Proceeds from issuance of preferred stock, net	Proceeds from issuance of preferred stock, net	—	727
Redemption of subordinated debt		—	(6,000)
Proceeds from sale of common stock, net		509	1,850
Repayment of subordinated debt			
Proceeds from issuance of common stock for benefit plans, net			

Common share buyback - redeemed stock	Common share buyback - redeemed stock	(49)	—
ESOP contribution	ESOP contribution	71	366
Unearned ESOP shares allocation		(15)	(371)
Tax benefit from options exercised		—	(6)
Unearned ESOP shares			
Dividends paid on common stock	Dividends paid on common stock	(1,287)	(1,056)
Dividends paid on preferred stock	Dividends paid on preferred stock	(832)	(1,005)
Net cash provided by (used in) financing activities		26,673	(648,657)
Net cash provided by financing activities			
Net change in cash and cash equivalents	Net change in cash and cash equivalents	(43,681)	54,348
Cash and cash equivalents, beginning of period	Cash and cash equivalents, beginning of period	109,727	55,379
Cash and cash equivalents, end of period	Cash and cash equivalents, end of period	\$66,046	\$109,727
Supplemental cash flow information	Supplemental cash flow information		
Interest paid	Interest paid	\$ 8,188	\$ 8,973
Interest paid			
Interest paid			
Income taxes paid	Income taxes paid	248	10,383
Supplemental noncash disclosures	Supplemental noncash disclosures		
Net change in unrealized holding gain on investment securities available for sale		(3,304)	(420)

Impact to retained earnings from adoption of ASC 326, net of tax			
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 losses on investment securities available for sale, net of tax effect			
Transfer of available for sale debt securities to held to maturity securities at fair value	Transfer of available for sale debt securities to held to maturity securities at fair value	1,500	—
Transfer of SBA loans held for investment to loans held for sale		336,664	377,631
Transfer of loans held for investment to OREO		53	—
Transfer of government guaranteed loans HFI to loans HFS			
Transfer of loans HFI to OREO			
Transfer of premises and equipment to OREO			
Recognition of right of use asset and operating lease liability	Recognition of right of use asset and operating lease liability	627	543
Conversion of Series B preferred stock to common stock		—	6,120

See accompanying notes.

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

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The accompanying consolidated financial statements include BayFirst Financial Corp. and its wholly owned subsidiary, BayFirst National Bank, together referred to as "the Company".

BayFirst Financial Corp. is a registered bank holding company, incorporated under the laws of the State of Florida. The Company owns all outstanding stock of BayFirst National Bank (the "Bank"), a national banking association bank. A significant portion of the Company's assets and revenues are derived from the operations of the Bank.

The Company provides a variety of traditional community banking services through its full-service banking centers located in St. Petersburg, Seminole, Pinellas Park, Clearwater, the Tampa/Sarasota, Tampa, Bradenton, and Belleair Bluffs, Florida region. The Bank's primary deposit products are demand deposits, NOW accounts, money market accounts, savings deposits, and time deposits and its primary lending products are residential mortgage, commercial, and installment consumer loans. In addition, the Company provides lending services nationwide to small business customers, and as such, a significant portion of the loans originated by the Bank are guaranteed by the SBA, SBA/USDA ("government guaranteed loans"). The guaranteed portion of the SBA SBA/USDA loan can be sold in the secondary market, and the Bank occasionally engages in the sale of participating interests of the non-guaranteed portion. The Company previously engaged in mortgage banking activities with offices located in a number of states and as such, originated and sold one-to-four family residential mortgage loans in the secondary market. The nationwide residential mortgage lending operations were discontinued in 2022.

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

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 allowance for loan losses, SBA ACL, government guaranteed loan servicing rights, and fair value of residential loans held for sale from discontinued operations and residential mortgage derivatives from discontinued operations, government guaranteed loans.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased.

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 December 31, 2022 December 31, 2023. Although the ultimate outcome of all claims and lawsuits outstanding as of December 31, 2022 December 31, 2023 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 Not Yet Adopted:

In June 2016, On January 1, 2023, the FASB issued Company adopted ASU No. 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This new guidance was issued to replace along with its amendments, which replaces the incurred loss model for loans and other financial assets impairment methodology in past standards with an expected loss model, which is referred to as the CECL model, methodology and requires consideration of a broader range of information to determine credit loss estimates. The measurement of expected losses under the CECL model methodology is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loans receivable and debt securities held to maturity. It also applies to as well as unfunded commitments that are considered off-balance sheet credit exposures not accounted for 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 insurance (i.e., loan commitments, standby letters well as the credit quality and underwriting standards of credit, financial guarantees, and other similar instruments) and netan

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

investments in certain leases recognized by a lessor organization's portfolio. In addition, the amendments in ASU 2016-13 require amends the accounting for credit losses on investment available-for-sale debt securities available for sale and purchased financial assets with credit deterioration. One such change is to require credit losses to be presented as a valuation allowance rather than as a direct write-down thereon. on available-for-sale debt securities management does not intend to sell.

Upon adoption 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 ASU 2016-13 \$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 Company expects to recognize a one-time cumulative effect adjustment increasing the allowance for loan losses of between approximately \$3,000 to \$5,000, or approximately 33% to 55%. adopting ASC 326.

The change for expected losses for the Company's unfunded loan commitments was immaterial. The vast majority of this increase is related to the Flashcap SBA loan portfolio. The ultimate pre-tax impact of the ASU at each subsequent reporting period January 1, 2023 adoption is highly dependent on credit quality, macroeconomic forecasts and conditions, composition of our loans and available-for-sale securities portfolios, along with other management judgments, summarized in the table below:

The Company did not recognize a material allowance for credit losses for its held-to-maturity debt securities under the model since the securities have a minimal risk of loss.

Allowance for credit losses	January 1, 2023		December 31, 2022		Impact of ASC 326 Adoption	
	As Reported Under ASC 326		Pre-ASC 326 Adoption			
Assets						
Investment securities HTM - corporate bonds	\$ 18	\$ 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

BAYFIRST FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 HFI 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 leases. ASU 2022-02 was adopted January 1, 2023 a WARM methodology for the remaining loans. The PD/LGD method estimates losses by utilizing estimated PD, LGD, and ~~did~~ 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 FOMC's median forecasts of change in national GDP and of national unemployment. The

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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.

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.

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 **operating** business, financial condition and results **or financial condition** of operations.

Time Deposits in Banks: Time deposits with other banks have maturities ranging from **August 2023** **January 2024** through December 2025 and bear interest at rates ranging from 1.70% to **3.50%** **2.27%**. None of the time deposits had maturities of 90 days or less at the time of origination. All investments in time deposits are with FDIC insured financial institutions and none exceed the maximum insurable amount of \$250.

Investment Securities: Investment securities transactions are recorded on a trade date basis. The company has some debt securities classified as held-to-maturity since management has the intent and ability to hold the securities to maturity. The remaining investment securities are classified as available for sale since the Company may sell them before maturity. Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are included in other comprehensive income and the related accumulated unrealized holding gains and losses are reported as a separate component of shareholders' equity until realized. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments.

Management evaluates securities for OTTI on at least a quarterly basis. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis.

Nonmarketable Equity Securities: Nonmarketable equity securities include equity securities that are not publicly traded and securities acquired for various purposes which are periodically evaluated for impairment. Nonmarketable equity securities consist of FHLB Stock, FRB Stock, stock in a correspondent bank, and preferred stock in a nonaffiliated company. The Bank is required to maintain certain minimum levels of equity investments with certain regulatory and other entities in which the Bank has an ongoing business relationship. These restricted equity securities are accounted for at cost which equals par or redemption value. These securities do not have a readily determinable fair value as their ownership is restricted and there is no market for these securities. These securities can only be redeemed or sold at their par value and

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only to the respective issuing government supported institution or to another member institution. Management considers these nonmarketable equity securities to be long-term investments. Accordingly, when evaluating some of these securities without readily determinable fair values for impairment, management considers the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The investment in preferred stock of the nonaffiliated company does not have a readily determinable value and is carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Loans Held for Sale: The Company may designate government guaranteed loans as held for sale based on its intent to sell guaranteed or non-guaranteed portions of these loans in the secondary market. Government guaranteed loans held for sale are accounted for at lower of cost or fair value. Gains or losses on the sale of these loans are recorded in noninterest income on the Consolidated Statements of Income.

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The Company also originates residential loans intended for sale in the secondary market which are carried at fair value with gains and losses recorded in noninterest income from discontinued operations. Most residential loans are sold servicing released, so there is no servicing income recognized on those loans and no associated servicing asset recorded on the Consolidated Balance Sheets. Interest income is recognized on those loans held for sale until the loan sale is fully completed and the loan is transferred. Interest income on loans held for sale is reflected in interest and fees on loans from discontinued operations in the Consolidated Statements of Income.

Loans: Except for certain loans for which the fair value option was elected, as discussed in **Note 6**, all other loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for **loan credit** losses. Interest income is accrued on the unpaid principal balances. Loan origination fees, net of direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

In general, interest income is discontinued, and the loan is placed on nonaccrual status, at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Mortgage and commercial loans are evaluated on a loan-by-loan basis and are charged off to the extent principal is deemed uncollectible. Other consumer and personal loans continue to accrue interest and are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if

collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due more than 89 days and still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually **classified impaired evaluated** loans.

All interest accrued but not collected for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until the loan returns to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received. Loans may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future contractual payments are reasonably assured.

Concentration of Credit: The Company grants residential and commercial real estate, construction and land, commercial and industrial, and consumer loans in the State of Florida with primary concentration being the Tampa Bay region. The Company also grants **SBA** **government guaranteed** commercial real estate, construction and land, commercial and industrial, and consumer loans nationwide. Although the Company's loan portfolio is diversified, a significant portion of its loans are secured by real estate. The following loan segments have been identified:

Residential Real Estate – The Bank originates residential real estate loans for the purchase or refinance of a mortgage in the Tampa Bay region. These loans are primarily collateralized by owner and non-owner occupied properties located in the Tampa Bay region and are held at amortized cost in the Company's loan portfolio. Prior to discontinuing the nationwide residential loan operation, the Bank also originated residential real estate loans nationwide for the purchase or refinance of a mortgage. These loans are primarily collateralized by owner and non-owner occupied properties located in the area in which they were originated, and these loans are sold into the secondary market.

Commercial Real Estate – Commercial real estate loans consist of **both loans secured by owner occupied properties and non-owner occupied properties** to finance real estate purchases, refinancings, and expansions and improvements to commercial properties. These loans are secured primarily by first liens and may include office buildings, apartments, retail and mixed-use properties, churches, warehouses, and restaurants. Commercial real estate loans are generally larger than residential real estate loans and involve greater credit risk. The repayment of these loans largely depends on the results of operations and management of these properties.

Construction and Land – Construction and land loans consist of loans to individuals for the construction of a primary or secondary residence and, in some cases, to real estate investors to acquire and develop land. To the extent construction loans are not made to owner-occupants of single-family homes, they are more vulnerable to changes in economic conditions. Further, the nature of these loans is such that they are more difficult to evaluate and monitor. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost, including interest, of the project.

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Commercial and Industrial – Commercial and industrial loans consist of business loans to small and medium sized businesses in the Tampa Bay region and nationwide **SBA/USDA** **government guaranteed** loans. Commercial and industrial loans are generally used for working capital purposes or for acquiring equipment, inventory, or furniture. These loans are generally secured by accounts receivable, inventory, and equipment. Commercial and industrial loans are typically

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made based on the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than residential real estate loans, and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business.

Commercial and Industrial - PPP – Commercial and industrial PPP loans consist of all loans originated under the SBA 7(a) loan PPP pursuant to the CARES Act and carry a 100% government guarantee.

Consumer and Other – Consumer and other loans mainly consist of automobile, revolving credit plans, and other loans. The Bank's consumer loans may be uncollateralized and rely on the borrower's income for repayment. The Bank also purchased a portfolio of unsecured consumer loans.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower that it would not otherwise consider are considered TDRs. In these instances, as part of a work-out alternative, the Company will make concessions including the extension of the loan term, a payment moratorium, a reduction in the interest rate, a period of interest-only payments, or a combination thereof. The impact of the TDR modifications and defaults are factored into the allowance for loan losses on a loan-by-loan basis as all TDRs are classified, by definition, as impaired loans.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impaired commercial real estate and commercial and industrial loans are individually evaluated for impairment. If a loan is impaired, 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.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the lesser of the cost basis or the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired. A TDR classification can be removed if the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, and the loan is subsequently refinanced or restructured at market terms and qualifies as a new loan.

The general component covers performing loans that are collectively evaluated for impairment. Large groups of smaller balance homogenous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as commercial loans that are evaluated but are not considered impaired. The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent one to three years, depending on the segment. The actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment.

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These economic factors include consideration of the following: levels of, and trends in, delinquencies and impaired loans; levels of, and trends in, charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 15 to 40 years. Leasehold improvements are amortized using the straight-line method with useful lives ranging from 3 to 10 years based on the lesser of the useful life of the asset or the remaining expected term of the lease. Furniture, fixtures, and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years.

SBA Loan Servicing Rights: When the Company sells the guaranteed portion of an SBA government guaranteed loan or a portion of the non-guaranteed portion of an SBA government guaranteed loan, the Company generally retains the servicing, and a servicing right asset is created. Servicing Loan servicing rights are initially recorded at fair value in gain on sale of government guaranteed loans, net. Fair value is based on market prices for comparable servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires loan servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing Loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported through gain on sale of government guaranteed loans, net on the Consolidated Statements of Income. The fair values of loan servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. There was no valuation allowance recorded on SBA loan servicing rights at December 31, 2022 December 31, 2023 and December 31, 2021 2022.

Loan servicing income, which is reported on the Consolidated Statement Statements of Income in noninterest income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal. The amortization of loan servicing rights is netted against loan servicing fee income.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Leases: The Company enters into leases in the normal course of business primarily for branch, corporate office, and loan production office locations. The Company's leases have remaining terms ranging from 710 months up to 4.53.4 years, some of which include renewal or termination options to extend the lease for up to 4.5 years. The Company's leases do not include residual value guarantees or covenants.

The Company includes lease extension and termination options in the lease terms if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (i.e., short-term leases) on the Consolidated Balance Sheets.

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Leases are classified as operating or finance leases at the lease commencement date; however, the Company has not entered into any finance leases. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

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The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

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

Other Real Estate Owned: OREO is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of real estate property collateralizing a mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are also expensed.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Mortgage Banking Derivatives: Prior to the discontinuation of the nationwide residential lending operation, the Bank originated mortgage loans intended for sale and the Bank entered into loan commitments for fixed rate mortgage loans, generally lasting 30 to 45 days and at market rates when initiated. Commitments to fund mortgage loans (i.e., interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the interest rate lock was recorded at the time the commitment to fund the mortgage loan was executed and was adjusted for the expected exercise of the commitment before the loan funded.

To deliver loans to the secondary market and to moderate its interest rate risk prior to sale, the Bank typically entered into non-exchange traded mandatory delivery forward sales contracts and best efforts forward sales contracts, which are also considered derivative instruments. These contracts were entered into for amounts and terms offsetting the interest rate risk of loan commitment derivatives and loans held for sale, and both were carried at their fair value with changes included in earnings. The Bank considered the best efforts forward sales contracts that meet the net settlement requirement to be derivatives, as there are penalties to the Bank if it did not deliver the loan to the investor once the loan closes with the borrower.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is used to estimate the fair value of stock options, while market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as a reversal of compensation cost expenses in the period that they occur.

Advertising: Advertising costs are expensed as incurred. These costs are included in marketing and business development expense or expenses from discontinued operations in the Consolidated Statements of Income.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. There was no valuation allowance recognized at **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

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Employee 401(k) Plan: The Company has a 401(k) plan that covers all employees subject to certain age and service requirements. The Company contributes 3% of eligible employees' 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. Employee 401(k) expense is the amount of safe harbor and employee matching contributions to the 401(k) plan. 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 401(k) plan.

Non-Qualified Stock Purchase Plan: Under the NSPP, all employees and Directors are eligible to participate in the plan. Employees may purchase available shares of common stock with post-tax dollars as of the grant date at a 10% discount to the price of shares offered under the DRIP, as determined by the Board of Directors, NSPP with limitations on deductions from employees' income. Directors may purchase available shares of common stock with post-tax dollars as of the grant date at the price of shares offered under the DRIP.

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NSPP: with no minimum deduction and a maximum deduction of the Directors' board fees. NSPP compensation expense is recorded based on the 10% discount offered to employees and the number of shares purchased by employees.

Employee Stock Ownership Plan: The Company has an ESOP for eligible employees. The amount of profit-sharing contributions to the ESOP is approved by the Board of Directors, and the Company purchases shares of the Company's common stock based on the amount of approved contributions. Profit-sharing expense is the amount of contributions to the ESOP. 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. See [Note 12 - Other Benefits Plans](#) for information.

Preferred Stock: The Company has issued cumulative nonconvertible Series A shares of preferred stock, on which it pays cash dividends at a rate of 9% (unless the Company has not redeemed the shares by the tenth anniversary of their issuance in 2019, in which event the rate is subject to be increased to 11%). The Company has also issued cumulative convertible Series B shares of preferred stock, on which it pays cash dividends at a rate of 8% (unless the Company has not redeemed the shares by the tenth anniversary of their issuance in 2020 and 2021, in which event the rate is subject to be increased to 9%). The Series B shares are convertible at a ratio of liquidation value to tangible book value at the option of the shareholder. All preferred stock has liquidation preference relative to the Company's common stock.

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. In the fourth quarter of 2023, the company issued an additional 4,611 shares. Total gross proceeds from the preferred stock offering totals \$6,446 which will be used for operating expenses or to contribute capital to BayFirst National Bank to support its growth and operations.

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.

Earnings per Common Share: Basic earnings per common share is net income less preferred stock dividends (i.e., net income available to common shareholders) divided by the weighted average number of common shares outstanding during the year. Diluted earnings per common share includes the dilutive effect of vested stock options that are considered in-the-money and the dilutive effect of the potential conversion of Series B preferred stock and Series C preferred stock to common stock.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: The Federal Reserve Board reduced reserve requirement ratios to 0% effective March 26, 2020. This action eliminated reserve requirements for all depository institutions. Cash was required to be pledged as collateral with a broker-dealer for trading mortgage banking derivatives. **The balance** There are no balances of cash pledged for trading at December 31, 2022 December 31, 2023 and December 31, 2021 was \$0 and \$948, December 31, 2022.

Revenue Recognition: Revenue earned on interest-earning assets is recognized based on the effective yield of the financial instrument. Revenue recognized from contracts with customers, which is accounted for under ASC 606, "Revenue from Contracts with Customers", is primarily included in the Company's noninterest income. Interest income and certain other types of noninterest income are accounted for under other applicable accounting standards.

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A description of the Company's revenue streams accounted for under ASC 606 are as follows:

Service Charges on Deposit Accounts – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include but are not limited to services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit Card Interchange Fees – The Company earns interchange fees from debit cardholder transactions through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the

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underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Government Guaranteed Loan Packaging Fees – The Company earns government guaranteed loan packaging fees for organizing loan documents for approval of government guaranteed loans. The revenue is recognized when the loan packaging services are performed.

Gains/Losses on Sales of OREO – The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed.

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 and retrospectively for prior periods.

The following is a summary of the assets and liabilities of the discontinued operations of the residential mortgage lending division at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

	December 31, 2022	December 31, 2021
Assets		

Loans held for sale, at fair value	\$ 449	\$ 114,131
Premises and equipment, net	—	580
Loan servicing rights	201	212
Mortgage banking derivative asset	—	1,550
Right-of-use operating lease asset	559	1,280
Accrued interest	2	31
Other assets	—	597
Total assets	\$ 1,211	\$ 118,381
Liabilities		
Operating lease liability	\$ 1,189	\$ 1,316
Mortgage banking derivative liability	—	189
Other liabilities	469	5,955
Total liabilities	\$ 1,658	\$ 7,460

The following presents operating results of the discontinued operations of the residential mortgage lending division for the years ended December 31, 2022 and December 31, 2021:

	Year Ended December 31,	
	2022	2021
Interest income	\$ 2,747	\$ 3,717
Noninterest income	31,442	95,604
Total net revenue	34,189	99,321
Noninterest expense	41,948	78,563
Income (loss) from discontinued operations before income taxes	(7,759)	20,758
Income tax expense (benefit)	(1,932)	5,169
Net income (loss) from discontinued operations	\$ (5,827)	\$ 15,589

	December 31, 2023	December 31, 2022
Assets		
Loans held for sale, at fair value	\$ —	\$ 449
Loan servicing rights	—	201
Right-of-use operating lease asset	348	559
Accrued interest receivable	—	2
Total assets	\$ 348	\$ 1,211
Liabilities		
Operating lease liability	\$ 620	\$ 1,189
Other liabilities	—	469
Total liabilities	\$ 620	\$ 1,658

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The following presents operating results of the discontinued operations of the residential mortgage lending division for the years ended December 31, 2023 and December 31, 2022:

	Year Ended December 31,	
	2023	2022
Interest income	\$ 1	\$ 2,747
Noninterest income	(2)	31,442

Total net revenue		(1)		34,189
Noninterest expense		282		41,948
Loss from discontinued operations before income taxes		(283)		(7,759)
Income tax benefit		(70)		(1,932)
Net loss from discontinued operations	\$	(213)	\$	(5,827)

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 December 31, 2023 and December 31, 2022 and December 31, 2021 as well as the ACL for investment securities held to maturity at December 31, 2023 are summarized as follows:

	Gross				December 31, 2023	Gross			
	Amortized	Unrealized	Unrealized	Fair		Amortized	Unrealized	Unrealized	Fair
Cost	Gains	Losses	Value	Cost	Gains	Losses	Value		
December 31, 2022					December 31, 2023				
Investment securities available for sale:									
Asset-backed securities									
Asset-backed securities	Asset-backed securities	\$ 9,873	\$ —	\$ (268)	Asset-backed securities	Gross	Amortized	Unrealized	Gross
Mortgage-backed securities:	Mortgage-backed securities:				Mortgage-backed securities:	Unrealized	Cost	Gains	Unrealized
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	4,133	—	(693)	U.S. Government-sponsored enterprises	Losses	Cost	Value	Fair
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises				U.S. Government-sponsored enterprises				
Collateralized mortgage obligations:	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	U.S. Government-sponsored enterprises				U.S. Government-sponsored enterprises				
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	22,031	—	(3,811)	U.S. Government-sponsored enterprises	Gross	Amortized	Unrealized	Gross
Corporate bonds	Corporate bonds	11,337	—	(253)	Corporate bonds	Unrealized	Cost	Gains	Unrealized
Total investment securities available for sale	Total investment securities available for sale	\$ 47,374	\$ —	\$ (5,025)	Total investment securities available for sale	Losses	Cost	Value	Fair
Investment securities held to maturity:					Investment securities held to maturity:				
Mortgage-backed securities:	Mortgage-backed securities:				Mortgage-backed securities:				
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	\$ 2	\$ —	\$ —	U.S. Government-sponsored enterprises	Gross	Amortized	Unrealized	Gross
Corporate bonds	Corporate bonds	5,000	—	(247)	Corporate bonds	Unrealized	Cost	Gains	Unrealized
Total investment securities held to maturity	Total investment securities held to maturity	\$ 5,002	\$ —	\$ (247)	Total investment securities held to maturity	Losses	Cost	Value	Fair
December 31, 2021					December 31, 2021				
Investment securities available for sale:					Investment securities available for sale:				

Asset-backed securities	\$ 7,624	\$ —	\$ (89)	\$ 7,535				
Mortgage-backed securities:								
U.S. Government-sponsored enterprises	4,470	—	(76)	4,394				
Collateralized mortgage obligations:								
U.S. Government-sponsored enterprises	19,370	—	(406)	18,964				
Total investment securities available for sale	\$ 31,464	\$ —	\$ (571)	\$ 30,893				
December 31, 2023					December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Investment securities held to maturity:								
Mortgage-backed securities:								
Mortgage-backed securities:								
Mortgage-backed securities:								
Mortgage-backed securities:								
U.S. Government-sponsored enterprises	\$ 2	\$ —	\$ —	\$ 2				
Corporate bonds								
Corporate bonds								
Corporate bonds								
Total investment securities held to maturity	\$ 2	\$ —	\$ —	\$ 2				

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December 31, 2022			Amortized Cost	Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Investment securities available for sale:								
Asset-backed securities			\$ 9,873	\$ —	\$ (268)	\$ 9,605		
Mortgage-backed securities:								
U.S. Government-sponsored enterprises			4,133	—	(693)	3,440		
Collateralized mortgage obligations:								
U.S. Government-sponsored enterprises			22,031	—	(3,811)	18,220		
Corporate bonds			11,337	—	(253)	11,084		
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:								
Mortgage-backed securities:								
U.S. Government-sponsored enterprises			\$ 2	\$ —	\$ —	\$ 2		
Corporate bonds			5,000	—	(247)	4,753		

Total investment securities held to maturity	\$ 5,002	\$ —	\$ (247)	\$ 4,755
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The amortized cost and fair value of investment securities as of December 31, 2022 2023 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				Available for Sale				Held to Maturity			
	Amortized Cost		Amortized Cost		Fair Value		Amortized Cost		Fair Value		Amortized Cost	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One to five years												
One to five years												
One to five years	\$ 9,981	\$ 9,773	\$ 4,000	\$ 3,869	\$ 11,332	\$ 11,308	\$ 1,500	\$ 1,440				
Five to ten years	1,356	1,311	1,000	884	—	—	—	—	1,000	822		822
Beyond ten years	36,037	31,265	2	2	32,265	28,267	28,267		1	1		1
Total	<u>\$ 47,374</u>	<u>\$ 42,349</u>	<u>\$ 5,002</u>	<u>\$ 4,755</u>	<u>Total</u>	<u>\$ 43,597</u>	<u>\$ 39,575</u>		<u>\$ 2,501</u>	<u>\$ 2,263</u>		

No ACL for investment securities AFS was needed at December 31, 2023. Declines in the fair value of the AFS investment portfolio are believed by management to be temporary in nature. When evaluating an investment for credit loss, management considers, among other things, the 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. 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 December 31, 2023, the Company did not intend to sell and believed it was not likely to be required to sell the available for sale securities that were in a loss position prior to full recovery.

As of December 31, 2023, 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 December 31, 2023 are not material to the financial statements. There was an ACL of \$17 on corporate bonds HTM based on applying the long-term historical credit loss rate for similarly rated securities.

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During the following table presents the second quarter of 2022, activity in the Company transferred a \$1,500 previously designated available ACL for sale investment securities HTM by major security to a held to maturity designation at estimated fair value. The reclassification was permitted as type for the Company has appropriately determined the ability and intent to hold the investment security until maturity or call. The investment security had no unrealized net gain or loss at the time of transfer since it was purchased near the end of the first quarter of 2022, year ended December 31, 2023.

As of December 31, 2022, the Company's investment portfolio consisted of 22 securities, 21 of which were in an unrealized loss position. The unrealized losses for these securities resulted primarily from changes in interest rates since purchased. The Company expects full recovery of the carrying amount of these securities and does not intend to sell the securities in an unrealized loss position nor does it believe it will be required to sell securities in an unrealized loss

position before the value is recovered. The Company does not consider these securities to be other-than-temporarily impaired at December 31, 2022.

Corporate Bonds	For the Year Ended	
	December 31, 2023	
Balance at beginning of period	\$	—
Impact of adopting ASC 326		18
Provision for credit losses		(1)
Investment securities charge-offs/recov		—
Investment securities recoveries		—
Balance at end of period	\$	17

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:

December 31, 2022	Less than 12 Months		12 Months or Longer		Total		Fair Value	Unrealized Losses	Fair Value	Unreal Loss				
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses								
	Less than 12 Months													
December 31, 2023														
December 31, 2023														
Investment securities available for sale:							Fair Value		Unrealized Losses					
Asset-backed securities							\$	\$—	\$	\$—				
Asset-backed securities	Asset-backed securities	\$ 2,156	\$ (103)	\$ 7,449	\$ (165)	\$ 9,605	\$ (268)	\$ —	\$ 5,967	\$ (114)				
Mortgage-backed securities:	Mortgage-backed securities:													
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	—	—	3,440	(693)	3,440	(693)							
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	4,188	(383)	14,103	(3,428)	18,291	(3,811)							
Corporate Bonds	Corporate Bonds	11,085	(253)	—	—	11,085	(253)							
U.S. Government-sponsored enterprises														
U.S. Government-sponsored enterprises														
Corporate bonds	Corporate bonds													
Corporate bonds	Corporate bonds	11,308	(24)	—	—	17,098	(3,28)							

Total investment securities available for sale	Total investment securities available for sale	\$17,429	\$ (739)	\$24,992	\$ (4,286)	\$42,421	\$ (5,025)	Total investment securities available for sale	\$11,308	\$ (24)	\$26,301	\$ (4,000)
Investment securities held to maturity:												
Investment securities held to maturity:												
Investment securities held to maturity:												
Investment securities held to maturity:	Investment securities held to maturity:	\$ 4,982	\$ (247)	\$ —	\$ —	\$ 4,982	\$ (247)	Total investment securities held to maturity	\$ —	\$ —	\$ 2,262	\$ (23)
Corporate Bonds	Corporate bonds											
Corporate bonds	Corporate bonds											
Corporate bonds	Corporate bonds											
Total investment securities held to maturity	Total investment securities held to maturity	\$ 4,982	\$ (247)	\$ —	\$ —	\$ 4,982	\$ (247)	Total investment securities held to maturity	\$ —	\$ —	\$ 2,262	\$ (23)

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The following table summarizes investment securities with unrealized losses at December 31, 2021 2022 aggregated by security type and length of time in a continuous unrealized loss position:

		Less than 12 Months		12 Months or Longer		Total		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses				
December 31, 2021											
December 31, 2022	December 31, 2022										
December 31, 2022											
Investment securities available for sale:	Investment securities available for sale:										
Asset-backed securities	Asset-backed securities	\$ 7,535	\$ (89)	\$ —	\$ —	\$ 7,535	\$ (89)	\$ 2,156	\$ (103)	\$ 7,449	\$ (165)
Mortgage-backed securities:	Mortgage-backed securities:										
U.S. Government-sponsored enterprises	U.S. Government-sponsored enterprises	4,394	(76)	—	—	4,394	(76)				

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	18,964	(406)	—	—	18,964	(406)
U.S. Government-sponsored enterprises							
U.S. Government-sponsored enterprises							
Corporate bonds							
Total investment securities available for sale							
Total investment securities available for sale		\$30,893	\$ (571)	\$ —	\$ —	\$30,893	\$ (571)
Investment securities held to maturity:							
Investment securities held to maturity:							
Investment securities held to maturity:							
Corporate bonds							
Corporate bonds							
Corporate bonds							
Total investment securities held to maturity							
Total investment securities held to maturity		\$ 4,982		\$ (247)		\$ —	\$ —

No investment securities were pledged as of December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022, and there were no sales of investment securities during the years ended December 31, 2023 and December 31, 2022 or during the year ended December 31, 2021.

NOTE 4 – LOANS

Loans held for investment, HFI, at amortized cost, at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 were as follows:

	December 31, 2022	December 31, 2021		December 31, 2023	December 31, 2022
Real estate:	Real estate:				
Residential					
Residential					
Residential	Residential	\$202,329	\$ 87,235		
Commercial	Commercial	231,281	163,477		
Construction and land	Construction and land	9,320	18,632		
Commercial and industrial	Commercial and industrial	194,643	217,155		

Commercial and industrial - PPP	Commercial and industrial - PPP	19,293	80,158
Consumer and other	Consumer and other	37,288	3,581
Loans held for investment, at amortized cost, gross		694,154	570,238
Loans HFI, at amortized cost, gross			
Deferred loan costs, net	Deferred loan costs, net	10,740	7,975
Discount on SBA 7(a) loans sold ⁽¹⁾		(5,621)	(3,866)
Premium (discount) on loans purchased		2,301	(13)
Allowance for loan losses		(9,046)	(13,452)
Loans held for investment, at amortized cost		<u>\$692,528</u>	<u>\$560,882</u>
Discount on government guaranteed loans sold ⁽¹⁾			
Premium on loans purchased, net			
Allowance for credit losses			
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 LOAN 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 schedule presents the activity in the allowance for loan losses ACL by loan segment for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

Year Ended	Year Ended	Real Estate - Commercial						Commercial									
		Real Estate - Residential		Real Estate - Commercial		Real Estate - Construction and Industrial		Real Estate - Consumer and Other		Real Estate - Residential		Real Estate - Commercial		Real Estate - Construction and Industrial		Real Estate - Consumer and Other	
		Residential	Commercial	and Land	Industrial	and other	Unallocated	Total	Residential	Commercial	and Land	Industrial	PPP	Other ⁽¹⁾	Unalloc		
Real Estate -																	
Residential																	
Year																	
December 31, 2022	December 31, 2023																
Beginning	Beginning																
Balance	Balance	\$ 1,437	\$ 2,349	\$ 241	\$ 9,202	\$ 154	\$ 69	\$ 13,452									

Beginning Balance							
Beginning Balance							
Impact of adopting ASC							
326							
	Charge- offs	—	(42)	—	(3,632)	(669)	—
Charge-offs	Recoveries	—	80	—	503	54	—
Recoveries	Provision	(706)	(1,431)	(213)	109	1,551	(10)
Provision	Ending						(700)
Ending	Balance	\$ 731	\$ 956	\$ 28	\$ 6,182	\$ 1,090	\$ 59
Balance							\$ 9,046
December 31, 2021							
December 31, 2022							
Beginning	Beginning						
Balance	Balance	\$ 2,088	\$ 2,899	\$ 310	\$ 15,418	\$ 252	\$ 195
							\$ 21,162
Beginning Balance							
Beginning Balance							
Impact of adopting ASC							
326							
	Charge- offs	—	(169)	—	(4,919)	(70)	—
Charge-offs	Recoveries	—	78	—	863	7	—
Recoveries	Provision	(651)	(459)	(69)	(2,160)	(35)	(126)
Provision	Ending						(3,500)
Ending	Balance	\$ 1,437	\$ 2,349	\$ 241	\$ 9,202	\$ 154	\$ 69
Balance							\$ 13,452

(1) During the fourth quarter of 2023, the ACL by loan segment was analyzed and further segmented within the model to better capture the credit risk in the underlying portfolios and refinements were made to certain quantitative and qualitative loss assumptions as warranted. As a result of these refinements, the ACL for the Consumer and Other loan segment was increased reflecting the continued higher credit risk and recent credit loss history experienced related to the unsecured consumer loan portfolio acquired from and serviced by a third-party originator.

(1) During the fourth quarter of 2023, the ACL by loan segment was analyzed and further segmented within the model to better capture the credit risk in the underlying portfolios and refinements were made to certain quantitative and qualitative loss assumptions as warranted. As a result of these refinements, the ACL for the Consumer and Other loan segment was increased reflecting the continued higher credit risk and recent credit loss history experienced related to the unsecured consumer loan portfolio acquired from and serviced by a third-party originator.

CECL significantly changed the credit losses estimation model for loans. The ACL represents management's best estimate of future lifetime expected losses on its 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 following table presents Company's ACL model utilizes a PD/LGD methodology to measure the balance in the allowance for loan expected credit losses and the recorded investment in loans by loan segment and based on impairment method at December 31, 2022. The 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 balances are included 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 collectively evaluated for impairment balances.

	Commercial								Total
	Real Estate- Residential	Real Estate- Commercial	Real Estate - Construction and Land	Commercial and Industrial	Industrial - PPP	Consumer and Other	Unallocated		
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	

loan review system; and economic conditions. In addition to this, the Company uses reasonable and supportable forecasts utilizing data from the FOMC's median forecasts of change in national GDP and of national

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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.

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.

See [Note 1](#) of the Notes to Consolidated Financial Statements for further discussion of the Company's ACL methodology.

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 December 31, 2023 and December 31, 2022, the ACL for unfunded commitments recorded in other liabilities was \$839 and \$511, respectively.

The following table presents the balance activity in the allowance ACL for loan losses and unfunded commitments for the year ended December 31, 2023:

	For the Year Ended	
	December 31, 2023	
Balance at beginning of period	\$ 511	
Impact of adopting ASC 326	213	
Provision for credit losses	115	
Unfunded commitments charge-offs	—	
Unfunded commitments recoveries	—	
Balance at end of period	\$ 839	

The following tables present the recorded investment in nonaccrual loans by loan segment and based loans past due over 89 days still on impairment method at December 31, 2021. 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	\$ —	\$ 91	\$ —	\$ 902	\$ —	\$ —	\$ —	\$ 993
Collectively evaluated for impairment	1,437	2,258	241	8,300	—	154	69	12,459
Total	\$ 1,437	\$ 2,349	\$ 241	\$ 9,202	\$ —	\$ 154	\$ 69	\$ 13,452
Loans:								
Individually evaluated for impairment	\$ 124	\$ 2,900	\$ —	\$ 902	\$ —	\$ —	\$ —	\$ 3,926
Collectively evaluated for impairment	87,111	160,577	18,632	216,253	80,158	3,581	—	566,312
Total	\$ 87,235	\$ 163,477	\$ 18,632	\$ 217,155	\$ 80,158	\$ 3,581	\$ —	\$ 570,238

The following table presents information related to impaired loans accrual by loan segment at December 31, 2023 and for December 31, 2022. In the year ended December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Real estate - residential	\$ —	\$ —	\$ —	\$ 92	\$ —	\$ —
Real estate - commercial	1,489	1,489	—	1,642	15	15
Subtotal	1,489	1,489	—	1,734	15	15
With an allowance recorded:						
Real estate - commercial	74	74	74	61	—	—
Commercial and industrial	1,854	1,854	499	1,726	—	—
Subtotal	1,928	1,928	573	1,787	—	—
Total	\$ 3,417	\$ 3,417	\$ 573	\$ 3,521	\$ 15	\$ 15

The following table presents information related to impaired loans by loan segment at and for tables, the year ended December 31, 2021:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Real estate - commercial	\$ 2,763	\$ 2,763	\$ —	\$ 2,353	\$ 8	\$ 8
Subtotal	2,887	2,887	—	2,384	8	8
With an allowance recorded:						
Real estate - commercial	137	137	91	360	—	—
Commercial and industrial	902	902	902	874	—	—
Subtotal	1,039	1,039	993	1,234	—	—
Total	\$ 3,926	\$ 3,926	\$ 993	\$ 3,618	\$ 8	\$ 8

For purposes of the impaired loans by loan segment tables 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 and December 31, 2021 were \$6,797 and \$6,197, respectively.

December 31, 2023	Loans Past Due Over		
	Nonaccrual with no ACL ⁽¹⁾	Nonaccrual with ACL ⁽¹⁾	89 Days Still Accruing ⁽¹⁾
Real estate - residential	\$ —	\$ 4,654	\$ 583
Real estate - commercial	—	1,159	—
Commercial and industrial	—	1,587	—
Consumer and other	—	—	282
Total	\$ —	\$ 7,400	\$ 865

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Nonaccrual loans and loans past due over 89 days still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans. The unguaranteed portions of government guaranteed loans that are under \$100 are reserved in full. Impaired loans include commercial loans that are individually evaluated for impairment and deemed impaired as well as TDR for all loan portfolio segments. The sum of

December 31, 2022	Nonaccrual ⁽¹⁾	Loans Past Due Over	
		89 Days Still Accruing ⁽¹⁾	—
Real estate - commercial	\$ 1,563	\$ —	—
Commercial and industrial	1,854	—	—
Consumer and other	—	254	—
Total	\$ 3,417	\$ 254	—

⁽¹⁾ Excludes nonaccrual loans accounted for under the fair value option. [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 past due are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. Significant quarter over 89 days still on accrual will differ from the total impaired loan amount.

quarter changes are reflective of changes in nonaccrual status and not necessarily associated with credit quality indicators like appraised value. The following table presents the recorded investment in nonaccrual and amortized cost basis of individually analyzed collateral dependent loans past due over 89 days still on accrual by loan portfolio segment at December 31, 2022 and December 31, 2021. In the following table, the recorded investment does not include the government guaranteed balance as of December 31, 2023:

	Nonaccrual				Loans Past Due Over	
			December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Real estate - residential	\$ —	\$ 124	\$ —	\$ 126	\$ —	\$ 126
Real estate - commercial	1,563	2,815	—	—	—	—
Commercial and industrial	1,854	902	—	—	—	—
Consumer and other	—	—	254	—	—	—
Total	\$ 3,417	\$ 3,841	\$ 254	\$ 126	\$ —	\$ —

	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 December 31, 2022 amortized cost at December 31, 2023 by loan segment:

	30- 89 Days Greater Than					Loans Not					
	Past Due	89 Days Past Due		Total Past Due	Past Due (1)	Total Loans	30-89 Days Past Due	Greater Than		Loans Not Past Due (1)	Total Loans
		Past Due	89 Days Past Due	Total Past Due	Past Due (1)	Total Loans		Past Due	89 Days Past Due		
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 -	Commercial and industrial -	—	—	—	19,293	19,293
PPP	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. Of those loans, \$3,675 of commercial and industrial PPP loans were delinquent as of December 31, 2022.

(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.

(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.

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The following table presents the aging of the recorded investment in past due gross loans HFI at December 31, 2021 amortized cost at December 31, 2022 by loan segment:

	30- 89 Days Greater Than Past Due Past Due Total Past Due Total Loans					Greater Than 30-89 Days 89 Days Total Past Due Past Due Total Past Due Total Loans				
	30-89 Days	89 Days	Total	Past Due	Total	30-89 Days	89 Days	Total	Past Due	Total
	Past Due	Past Due	Past Due	(1)	Loans	Past Due	Past Due	Past Due	(1)	Loans
Real estate - residential	Real estate - residential	\$ 57	\$ 250	\$ 307	\$ 86,928	\$ 87,235				
Real estate - commercial	Real estate - commercial	192	1,778	1,970	161,507	163,477				

Real estate - construction and land	Real estate - construction and land	—	—	—	18,632	18,632
Commercial and industrial	Commercial and industrial	991	424	1,415	215,740	217,155
Commercial and industrial - PPP	Commercial and industrial - PPP	—	—	—	80,158	80,158
Consumer and other	Consumer and other	—	—	—	3,581	3,581
Total	Total	\$ 1,240	\$ 2,452	\$ 3,692	\$ 566,546	\$ 570,238

(1) \$10,360 of balances 30-89 days past due and \$2,807 of balances greater than 89 days past due are reported as Loans Not Past Due as a result of the government guarantee, and \$11,089 of 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) \$1,803 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 \$3,675 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) \$1,803 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 \$3,675 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.

Modifications to Borrowers Experiencing Financial Difficulty

For 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 **constitute an undue and unwarranted credit risk, but not to a point of justifying a classification of "Substandard". They have potential weaknesses that may, if not checked or corrected, weaken the asset, or inadequately protect the Bank. 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.

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

The table below sets forth credit exposure for the loan portfolio disaggregated by loan segment based on internally assigned risk ratings at December 31, 2022:

	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

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The table below sets forth **gross** credit exposure for the **commercial** loan portfolio disaggregated by loan segment based on internally assigned risk ratings at **December 31, 2021**:

	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real estate - residential	\$ 87,233	\$ —	\$ 2	\$ —	\$ 87,235
Real estate - commercial	160,492	170	2,815	—	163,477
Real estate - construction and land	18,632	—	—	—	18,632
Commercial and industrial	212,544	1,850	2,761	—	217,155
Commercial and industrial - PPP	80,158	—	—	—	80,158
Consumer and other	3,581	—	—	—	3,581
Loans held for investment, at amortized cost	\$ 562,640	\$ 2,020	\$ 5,578	\$ —	\$ 570,238

Troubled Debt Restructurings

The following table presents loans classified as TDR at December 31, 2022 December 31, 2023 and December 31, 2021:

	December 31, 2022		December 31, 2021	
	Accruing	Nonaccruing	Accruing	Nonaccruing
Real estate - commercial	\$ —	\$ —	\$ 85	\$ 1,116
Commercial and industrial	—	—	—	—
Total TDRs	\$ —	\$ —	\$ 85	\$ 1,116

The Company had not committed to lend any additional amounts to the loans classified as TDR at December 31, 2021. The Company estimated \$38 of impaired loan loss reserves gross write offs for these loans at December 31, 2021. There were no loans which were modified in the previous twelve months that defaulted during the year ended December 31, 2022. December 31, 2023:

There were no new loans classified as TDR during the year ended December 31, 2022.

The CARES Act, signed into law on March 27, 2020, permitted financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by the COVID-19 pandemic that would otherwise be characterized as TDR and permitted any determination related thereto if (i) the loan modification was made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The CAA, signed into law on December 27, 2020, extended the applicable period to include modifications to loans held by financial institutions executed between March 1, 2020 and the earlier of (i) January 1, 2022 or (ii) 60 days after the date of the termination of the COVID-19 pandemic national emergency. In addition, federal bank regulatory

authorities have issued guidance to encourage financial institutions to make loan modifications for borrowers affected by COVID-19 pandemic and have assured financial institutions that they will neither receive supervisory criticism for such prudent loan modifications, nor be required by examiners to automatically categorize COVID-19-pandemic related loan modifications as TDR. The Company is applying this guidance to qualifying loan modifications.

There were no loan modifications related to the COVID-19 pandemic remaining at December 31, 2022. Loan modifications related to the COVID-19 pandemic at December 31, 2021 are presented in the table below:

	December 31, 2021		
	Number of Loans		Outstanding Recorded Investment
	1	\$ 258	
Real estate - residential			
Commercial and industrial	23		\$ 1,113
Total loan modifications related to COVID-19 pandemic	24	\$	1,371

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans	Revolving Loans		
	2023			2022		2021	Prior	Amortized Cost Basis	Converted to Term	Total
	Real estate - commercial									
Risk Rating										
Pass	\$ 94,092	\$ 79,712	\$ 50,985	\$ 64,648	\$ 2,439	\$ —	\$ —	\$ 291,876	\$ —	\$ 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	\$ —	\$ 293,595
Gross write offs	\$ —	\$ 101	\$ —	\$ 7	\$ —	\$ —	\$ —	\$ —	\$ —	108
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	\$ —	\$ 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	\$ —	\$ 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	—	—	—	—	—	—	—	—	—	—

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	Term Loans Amortized Cost Basis by Origination Year				Revolving	Revolving
	2023	2022	2021	Prior	Loans	Loans
					Amortized	Converted
Total commercial and industrial - PPP loans, at amortized cost, gross	\$ —	\$ —	\$ 135	\$ 3,067	\$ —	\$ 3,202
Gross write offs	\$ —	\$ —	\$ —	\$ 223	\$ —	\$ 223

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 at December 31, 2023 in residential and consumer loans, gross based on payment activity as well as gross write offs for the year ended December 31, 2023.

	Term Loans Amortized Cost Basis by Origination Year				Revolving	Revolving
	2023	2022	2021	Prior	Loans	Loans
					Amortized	Converted
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

The table below sets forth credit exposure for the loan portfolio disaggregated by loan segment based on internally assigned risk ratings at December 31, 2022:

	Pass	Special Mention			Doubtful	Total Loans
		Mention	Substandard			
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 HFI, at amortized cost, gross	\$ 687,769	\$ 2,451	\$ 3,934	\$ —	\$ —	\$ 694,154

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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 HFI at amortized cost, gross 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 - Construction and Land		Commercial and Industrial		Commercial and Industrial - PPP		Consumer and Other		Unallocated	Total
	Real Estate - Residential	Real Estate - Commercial	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 HFI at amortized cost, gross	\$ 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 HFI, at amortized cost by loan segment at and for the year ended December 31, 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	\$ —	\$ —	\$ 92	\$ —	\$ —	\$ —
Real estate - commercial	1,489	1,489	—	1,642	15	15
Subtotal	1,489	1,489	—	1,734	15	15
With an allowance recorded:						
Real estate - commercial	74	74	—	61	—	—
Commercial and industrial	1,854	1,854	949	1,726	—	—
Subtotal	1,928	1,928	949	1,787	—	—
Total	\$ 3,417	\$ 3,417	\$ 949	\$ 3,521	\$ 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.

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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 ~~has had~~ elected to account for residential loans held for sale at fair value. The fair value of loans held for sale ~~is~~ 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.

SBA Government Guaranteed Loans Held for Investment, HFI, at Fair Value: The Company has elected to account for certain SBA 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 Individually Evaluated Loans: Mortgage banking derivatives used in Periodically, the ordinary course Company records non-recurring adjustments to the carrying value of business primarily consist of mandatory forward sales contracts, best efforts forward sales contracts, and interest rate lock commitments. The loans based on fair value measurements for partial charge-offs of mandatory forward sales contracts 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 using quoted market prices (Level 1), or in some cases when quoted market prices are not available, the pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Company (Level 2). Interest rate lock commitments involve pricing derived from market observable inputs that are adjusted based on pull-through rates (anticipated loan funding probability). Pull-through rates are an unobservable input which are the Company's estimate of the percentage of interest rate lock commitments expected to result in closed loans (Level 3). The fair value of best efforts forward sales contracts is measured using market observable inputs that are adjusted using unobservable inputs including duration, spread, and pull-through rates (Level 3).

Impaired Loans: A loan is considered to be impaired when it is probable the Bank will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. In most cases, the Bank measures fair value based on the difference between the fair value of the collateral securing and the loan. Collateral may be in amortized cost basis of the form loan as of real estate and/or business or personal assets, including but not limited to equipment, inventory, and accounts receivable. The fair value measurement date. Fair value of real estate the loan's collateral is determined based on third party by appraisals, by qualified licensed appraisers as well as internal estimates. The independent valuation, or management's estimation of fair value of other business or personal assets which is generally based on amounts reported on then adjusted for the financial statements cost related to liquidation of the customer or customer's business. Appraised and reported values may be adjusted collateral. Collateral dependent loans are generally classified as Level 3 based on management's historical knowledge, changes in market conditions from the time of valuation judgment and management's knowledge of the customer and the customer's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified as Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified. estimation.

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SBA Government Guaranteed Loan Servicing Rights: The fair value of SBA 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 SBA government guaranteed loan servicing rights carried at fair value at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022. On a quarterly basis, SBA government guaranteed loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. 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 December 31, 2023 are summarized below. There were no liabilities carried at fair value on 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

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

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

(1) Classified as assets from discontinued operations and liabilities from discontinued operations on the consolidated balance sheet.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2021 are summarized below:

		Quoted Prices in Active Markets for Identical Assets			Significant Other Observable Inputs			Significant Unobservable Inputs			
		Significant	Other	Observable	Significant	Other	Observable	Significant	Other	Unobservable	Total
		Inputs	Inputs	Total	Inputs	Inputs	Total	Inputs	Inputs	Total	
		(Level 1)	(Level 2)	(Level 3)		(Level 1)	(Level 2)		(Level 1)	(Level 2)	
	Financial assets				Financial assets						
Investment securities available for sale		\$	—	\$ 30,893	Investment securities available for sale	\$	—	\$ 30,893	Inputs		
Residential loans held for sale ⁽¹⁾			43,837	70,294	Residential loans held for sale ⁽¹⁾		—	—	Significant		
SBA loans held for investment, at fair value		—	—	—	SBA loans held for investment, at fair value	—	—	9,614	Other		
Interest rate lock commitments ⁽¹⁾		—	—	—	Interest rate lock commitments ⁽¹⁾	—	—	1,435	Observable		
Mandatory forward sales contracts ⁽¹⁾		88	—	—	Mandatory forward sales contracts ⁽¹⁾	88	—	—	Inputs		
Best efforts forward sales contracts ⁽¹⁾		—	—	—	Best efforts forward sales contracts ⁽¹⁾	—	—	27	Significant		
Financial liabilities					Financial liabilities				Other		
Interest rate lock commitments ⁽¹⁾		\$	—	\$ 23	Interest rate lock commitments ⁽¹⁾	\$	—	\$ 23	Inputs		
Mandatory forward sales contracts ⁽¹⁾			166	—	Mandatory forward sales contracts ⁽¹⁾		—	—	Significant		

(1) Classified as assets from discontinued operations and liabilities from discontinued operations on the consolidated balance sheet.

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 HFI. There were no residential loans held for investment, sale as of December 31, 2023. None of these loans were 90 days or more past due or on nonaccrual at December 31, 2022 or December 31, 2021.

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The aggregate fair value, contractual balance, and gain at December 31, 2022 and December 31, 2021 for residential loans held for sale from discontinued operations were as follows:

	December 31, 2022	December 31, 2021
Aggregate fair value	\$ 449	\$ 114,131
Contractual balance	434	110,335
Gain	\$ 15	\$ 3,796
		December 31, 2022
Aggregate fair value	\$ 449	
Contractual balance	434	
Gain	\$ 15	

The total amounts of interest income from discontinued operations and losses from changes in fair value included in earnings for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 for residential loans held for sale from discontinued operations were as follows:

	Year Ended December 31,		Year Ended December 31, 2022
	2022	2021	
Interest income	Year Ended December 31, 2023	2023	Year Ended December 31, 2022
Interest income	\$ 2,747	\$ 3,717	
Change in fair value	(3,781)	(4,934)	
Total loss	\$ (1,034)	\$ (1,217)	

The Company also elected the fair value option for certain of its non-PPP SBA government guaranteed loans 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 SBA government guaranteed loans on a loan-by-loan basis. The portion of these loans guaranteed by the SBA 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.

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The following tables provide more information about the fair value contractual balance, carrying amount and gain at December 31, 2022 and December 31, 2021 the unpaid principal outstanding of HFI government guaranteed loans accounted for SBA loans held for investment, at under the fair value were as follows: option at December 31, 2023 and December 31, 2022.

	December 31, 2022	December 31, 2021
Aggregate fair value	\$ 27,078	\$ 9,614
Contractual balance	26,201	9,430
Gain	\$ 877	\$ 184

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)	
	\$ 19,156	\$ 19,219	\$ 63	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate - commercial										
Commercial and industrial	68,777	72,289	3,512	585	485	(100)	182	162	(20)	
Total loans HFI, at fair value	\$ 87,933	\$ 91,508	\$ 3,575	\$ 585	\$ 485	\$ (100)	\$ 182	\$ 162	\$ (20)	

December 31, 2022										
	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)	
	\$ 4,978	\$ 4,919	\$ (59)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate - commercial										
Commercial and industrial	21,223	22,159	936	—	—	—	—	—	—	
Total loans HFI, at fair value	\$ 26,201	\$ 27,078	\$ 877	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	

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

The total amount of gains and losses from changes in fair value and interest income included in earnings for the years ended December 31, 2023 and December 31, 2022 and December 31, 2021 for SBA government guaranteed loans held for investment, HFI, at fair value, were as follows:

	Year Ended December 31,		Year Ended December 31,
	2023	2022	
Interest income	\$ 1,611	\$ 559	
Change in fair value	4,756	184	
Total gain	\$ 6,367	\$ 743	

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

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The table below presents a reconciliation of SBA 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 years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

	Year Ended December 31,		Year Ended December 31,
	2022	2021	
Balance of SBA loans held for investment at fair value, beginning of period	\$ 9,614	\$ 9,264	

New SBA originations at fair value	66,060	—	
	2023	2023	2022
Balance of government guaranteed loans HFI at fair value, beginning of period			
New government guaranteed originations at fair value			
Loans sold	Loans sold (49,716)	—	
Principal payments	Principal payments (3,587)	(1,227)	
Charge-offs	Charge-offs (49)	(8)	
Repurchase of guaranteed balances previously participated		— 1,401	
Total gains during the period	Total gains during the period 4,756	184	
Balance of SBA loans held for investment at fair value, end of period	\$27,078	\$9,614	
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 SBA 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.

The following table provides information about the valuation techniques and unobservable inputs used in the valuation of SBA government guaranteed loans held for investment, at fair value, interest rate lock commitments, and best efforts forward sales contracts falling HFI fall within Level 3 of the fair value hierarchy at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
December 31, 2023				
Government guaranteed loans HFI at fair value	\$ 91,508	Discounted cash flow	Discount rate Conditional prepayment rate	7.36%-10.86% (8.74%) 10.38%-15.69% (13.91%)
December 31, 2022				
SBA Government guaranteed loans held for HFI, at fair value investment, at fair value	\$ 27,078	Discounted cash flow	Discount rate Conditional prepayment rate	5.50%-10.00% (8.00%) 8.66%-10.15% (8.95%)
Best efforts forward sales contracts (1)	—	Quoted market prices	Pull-through expectations	100.00%
December 31, 2021				
SBA loans held for investment, at fair value	\$ 9,614	Discounted cash flow	Discount rate Conditional prepayment rate	3.22%-6.72% (4.22%) 10.56%-10.56% (10.56%)
Interest rate lock commitments (1)	1,412	Quoted market prices	Pull-through expectations	24.00%-100.00% (84.40%)
Best efforts forward sales contracts (1)	27	Quoted market prices	Pull-through expectations	24.00%-80.00% (65.79%)

(1) Classified as assets from discontinued operations and liabilities from discontinued operations on the consolidated balance sheet.

The significant unobservable inputs impacting the fair value measurement of SBA 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.

The significant unobservable inputs impacting the Assets measured at fair value measurement of interest rate lock commitments and best efforts sales contracts include pull-through rates. An increase in the pull-through rate utilized in the fair value measurement of the interest rate lock commitments and best efforts forward sale contracts will result in positive fair value adjustments (and an increase in the fair value measurement). Conversely, on a decrease in the pull-through rate will result in a negative fair value adjustment (and a decrease in the fair value measurement), nonrecurring basis at December 31, 2023 are summarized below:

	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%

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Assets measured at fair value on a nonrecurring basis at December 31, 2022 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%

Assets measured at fair value on a nonrecurring basis at December 31, 2021 are summarized below:

	Fair Value	Valuation Technique(s)	Significant Unobservable Input(s)	Discount %	Amount
Impaired loans	\$ 1,614	Discounted appraisals, estimated net realizable value of collateral	Collateral discounts	10%	

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Fair Value of Financial Instruments

The carrying values and estimated fair values of financial instruments not carried at fair value, at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 are as follows:

	December 31, 2022		December 31, 2021		
	Fair				
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
December 31, 2023					
Level					
Assets:	Assets:				
Cash and cash equivalents					
Cash and cash equivalents					
Cash and cash equivalents	Cash and cash equivalents	1	\$ 66,046	\$ 66,046	\$ 109,727 \$ 109,727
Time deposits in banks	Time deposits in banks	2	4,881	4,714	2,381 2,437

Investment securities held to maturity	Investment securities held to maturity	2	5,002	4,755	2	2
Nonmarketable equity securities, at cost	Nonmarketable equity securities, at cost	2	5,537	5,537	2,827	2,827
Government guaranteed loans held for sale		2	—	—	1,460	1,460
Loans held for investment, at amortized cost		3	692,528	687,365	560,882	569,394
Loans HFI, at amortized cost						
Loans HFI, at amortized cost						
Loans HFI, at amortized cost						
Accrued interest receivable ⁽¹⁾	Accrued interest receivable ⁽¹⁾	3	4,454	4,454	3,564	3,564
SBA loan servicing rights		3	10,906	13,051	6,407	8,050
Government guaranteed loan servicing rights						
Mortgage loan servicing rights ⁽²⁾	Mortgage loan servicing rights ⁽²⁾	3	201	201	212	212
Liabilities:	Liabilities:					
Noninterest-bearing deposits						
Noninterest-bearing deposits						
Noninterest-bearing deposits	Noninterest-bearing deposits	2	\$ 93,235	\$ 93,235	\$ 83,638	\$ 83,638
Interest-bearing transaction accounts	Interest-bearing transaction accounts	2	202,656	202,656	163,495	163,495
Savings and money market deposits	Savings and money market deposits	2	363,053	363,053	423,864	423,864
Time deposits	Time deposits	2	136,126	134,564	50,688	51,049
FHLB and FRB borrowings		2	25,000	25,000	—	—
FRB and FHLB borrowings						
Subordinated debentures	Subordinated debentures	2	5,992	5,270	5,985	6,175
Notes payable	Notes payable	2	2,844	2,843	3,299	3,350
PPP Liquidity Facility		2	—	—	69,654	69,654
Accrued interest payable	Accrued interest payable	2	704	704	326	326

(1) Includes balances of \$2 and \$31 classified as assets from discontinued operations on the consolidated balance sheet as of December 31, 2022 and December 31, 2021, respectively.

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

NOTE 7 – SBA GOVERNMENT GUARANTEED LOAN SERVICING ACTIVITIES

At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the principal balance of SBA government guaranteed loans, excluding PPP loans, retained by the Company was \$300,219 \$395,877 and \$300,415, \$300,219, respectively, of which \$139,587 \$214,418 and \$171,548 \$139,587 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 SBA government guaranteed loans serviced for others requiring recognition of a servicing asset were \$855,756 and \$660,600 at December 31, 2023 and \$459,670 at December 31, 2022 and December 31, 2021, respectively.

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Activity for SBA government guaranteed loan servicing rights for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 follows:

		Year Ended		
		December	December	
		31, 2022	31, 2021	
		Year Ended		
		Year Ended		
		December		
		31, 2023		December 31, 2023
				December 31, 2022
Beginning of period	Beginning of period	\$ 6,407	\$ 8,160	
Additions	Additions	7,757	1,229	
Amortization	Amortization	(3,258)	(2,982)	
End of period	End of period	<u>\$ 10,906</u>	<u>\$ 6,407</u>	

The fair value of SBA government guaranteed loan servicing rights was \$16,318 and \$13,051 at December 31, 2023 and \$8,050 at December 31, 2022 and December 31, 2021, respectively. Fair value was determined using a weighted average discount rate of 14.50% and a weighted average prepayment speed of 11.42% at December 31, 2023. Fair value was determined using a weighted average discount rate of 14.88% and a weighted average prepayment speed of 9.93% at December 31, 2022. Fair value was determined using a weighted average discount rate of 12.13% and a weighted average prepayment speed of 10.37% at December 31, 2021. The SBA 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 SBA loans, excluding sale of PPP government guaranteed loans for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

	Year Ended	
	December 31, 2022	December 31, 2021
Gain on sale of guaranteed SBA loans	\$ 14,512	\$ 3,435
Loss on sale of unguaranteed SBA loans	(411)	(406)
Costs recognized on sale of SBA loans	(138)	(51)
Fair value of servicing rights created	7,757	1,229
Gain on sale of SBA loans, net	<u>\$ 21,720</u>	<u>\$ 4,207</u>

	Year Ended	
	December 31, 2023	December 31, 2022
Gain on sale of guaranteed portion of government guaranteed loans	\$ 16,852	\$ 14,512
Loss on sale of unguaranteed portion of government guaranteed loans	(759)	(411)
Costs recognized on sale of government guaranteed loans	(100)	(138)
Fair value of loan servicing rights created	8,560	7,757
Gain on sale of government guaranteed loans, net	<u>\$ 24,553</u>	<u>\$ 21,720</u>

NOTE 8 - PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 were as follows:

		December		
		31, 2022	31, 2021	
		December 31,		
		2023		December 31, 2023
Land and improvements	Land and improvements	\$ 4,488	\$ 4,194	December 31, 2022
Building and improvements	Building and improvements	13,131	9,590	

Leasehold improvements	Leasehold improvements	2,833	2,433
Furniture, fixtures, and equipment	Furniture, fixtures, and equipment	6,520	7,034
Fixed assets in process	Fixed assets in process	14,716	12,247
Total premises and equipment	Total premises and equipment	41,688	35,498
Accumulated depreciation and amortization	Accumulated depreciation and amortization	(6,248)	(5,827)
Net premises and equipment ⁽¹⁾	Net premises and equipment ⁽¹⁾	\$ 35,440	\$ 29,671

⁽¹⁾ Includes There were no premises and equipment of \$580 assets classified as assets from discontinued operations as of December 31, 2021. There were no assets classified as assets from discontinued operations as of December 31, 2023 or December 31, 2022.

Depreciation and amortization expense including expense from discontinued operations was \$1,980 \$2,245 and \$1,741 \$1,980 for the years ended December 31, 2022 2023 and December 31, 2021, 2022, respectively.

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NOTE 9 – LEASES

For the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the components of total lease cost and supplemental information related to operating leases were as follows:

	Year Ended December 31,		2023	2022
	2022	2021		
Operating lease cost	\$1,497	\$1,456		
Short-term lease cost	419	694		
Total lease cost, net ⁽¹⁾	<u>\$1,916</u>	<u>\$2,150</u>		

⁽¹⁾ Includes lease costs reported as discontinued operations of \$893 \$136 and \$1,440 \$893 for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.

	Year Ended December 31,	
	2022	2021

	Year Ended December 31,	2023	2023	2022
Cash flows related to operating lease liabilities	Cash flows related to operating lease liabilities	\$1,546	\$1,440	
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	543	

At December 31, 2022 December 31, 2023, the weighted average discount rate of operating leases was 2.27% 2.37% and the weighted average remaining life of operating leases was 3.83 3.14 years.

The future minimum lease payments for operating leases, subsequent to December 31, 2022 December 31, 2023, as recorded on the balance sheet, are summarized as follows:

2023		\$	1,450
2024	2024		1,238
2025	2025		1,029
2026	2026		832
2027	2027		413
2028			
Thereafter	Thereafter		—
Total undiscounted lease payments	Total undiscounted lease payments	\$	4,962
Less: imputed interest	Less: imputed interest		(235)
Net lease liabilities	Net lease liabilities	\$	4,727

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 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.

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Based on the analysis, the Company concluded that the ROU assets for these offices were impaired and had a remaining ROU carrying value of \$559 \$348 as of December 31, 2022 December 31, 2023. The analyses resulted in the recognition of \$845 no additional impairment for the year ended December 31, 2022 December 31, 2023. The impairment was recognized in income (loss) from discontinued operations on the Consolidated Statements of Income.

NOTE 10 - DEPOSITS

The amount of each of the following categories of deposits at December 31, 2023 and December 31, 2022 was as follows:

	December 31, 2023	December 31, 2022
Noninterest-bearing deposits	\$ 93,708	\$ 93,235
Interest-bearing transaction accounts	259,422	202,656
Money market accounts	355,946	345,200
Savings	17,054	17,853
Subtotal	<hr/> 726,130	<hr/> 658,944
Total time deposits	259,008	136,126
Total deposits	<hr/> \$ 985,138	<hr/> \$ 795,070

The aggregate amount of time deposits in denominations of \$250 or more at December 31, 2023 and December 31, 2022 was approximately \$107,969 and \$55,278, respectively. At December 31, 2023 the scheduled maturities of total time deposits were as follows:

<u>Year</u>		
2024		\$ 173,887
2025		84,488
2026		64
2027		82
2028		487
Thereafter		<hr/> —
Total		<hr/> \$ 259,008

NOTE 11 – OTHER BORROWINGS

At December 31, 2022 December 31, 2023, the Company had a short-term FRB borrowing \$10,000 of \$25,000 borrowings at 4.50% 5.57% from the FHLB and no borrowings from the FHLB, FRB. There were \$25,000 of borrowings at 4.50% from the FRB and no borrowings from the FHLB or FRB at December 31, 2021 December 31, 2022.

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 \$210,782 \$285,852 of real estate-related loans as of December 31, 2022 December 31, 2023. Based on this collateral and the Company's holdings of FHLB stock, the Company was eligible to borrow up to \$128,585 153,456 from the FHLB at December 31, 2022 December 31, 2023.

In addition, the Bank has a secured line of credit with the Federal Reserve Bank of Atlanta which was secured by \$62,481 \$57,696 of commercial loans as of December 31, 2022 December 31, 2023. 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 an additional \$16,950 \$40,428 from the FRB at December 31, 2022 December 31, 2023.

In June 2021, the Company issued \$6,000 of Subordinated Debentures (the "Debentures") that mature June 30, 2031 and are redeemable after 5 years. 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. Under the debt agreements, the floating rates are based on a SOFR benchmark plus 3.78% per annum. These Debentures were issued to redeem a \$6,000 Subordinated Debenture which was issued in December 2018 and carried interest at a rate of 6.875% per annum. The balance of Subordinated Debentures outstanding at the Company, net of offering costs, amounted to \$5,949 and \$5,992 at December 31, 2023 and \$5,985 at December 31, 2022 and December 31, 2021, respectively.

In March 2020, the The Company renegotiated the terms of its outstanding senior debt and combined its line of credit and has a term note into one amortizing note with quarterly principal and interest payments with interest at Prime (6.25% (8.50% at December 31, 2022 December 31, 2023). The note matures on March 10, 2029 and the balance of the note was \$2,389 and \$2,844 at December 31, 2023 and \$3,299 at December 31, 2022 and December 31, 2021, respectively. The note is secured by 100% of the stock of the Company Bank and requires the Company to comply with certain loan covenants during the term of the note. As of December 31, 2022 December 31, 2023, the Company was in compliance with all financial debt covenants.

In April 2020, the Company entered into the Federal Reserve Bank's PPPLF. Under the PPPLF, advances were secured by pledges

[Table of loans to small businesses originated by the Company under the PPP. The PPPLF accrued interest at 0.35% per annum and matured at various dates equal to the maturity date of the PPPLF collateral pledged to secure the advance, and accelerated on and to the extent of any PPP loan forgiveness reimbursement by the SBA for any PPPLF collateral or the date of purchase by the SBA from the borrower of any PPPLF collateral. On the maturity date of each advance, the Company repaid the advance plus accrued interest. The balance outstanding on this facility was \\$69,654 at December 31, 2021. In the first quarter of 2022, the Company repaid the remaining balance of the advance.](#) [Contents](#)

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NOTE 11.12 – 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 \$763 \$651 and \$461 \$763 for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, 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 **year** years ended **December 31, 2022** **December 31, 2023** follows:

	Shares	Weighted-Average Grant-Date Fair Value, per share
Nonvested at January 1, 2022	2,483	\$ 14.86
Nonvested at January 1, 2023		
Granted	Granted 34,925	21.50
Vested	Vested (10,283)	19.86
Forfeited	Forfeited (5,125)	21.45
Nonvested at December 31, 2022	22,000	\$ 21.52
Nonvested at December 31, 2023		

At **December 31, 2022** **December 31, 2023**, there was **\$194** **\$454** 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 **3.6** **3.2** years. The total fair value of shares vested during the years ended **December 31, 2023** and **December 31, 2022** was **\$252** and **December 31, 2021** was **\$209**, and **\$85**, 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 generally 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 **such date** **Nasdaq** on the **securities exchange having date of the greatest volume of trading in the Common Stock during the 30-day period preceding the day the value is to be determined or, if there is no reported closing sales price on such date, the next preceding date on which there was a reported closing price**. **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.

The fair value of options granted during the year ended December 31, 2021 were determined using the following weighted average assumptions as of grant date:

	December 31, 2021
Risk-free interest rate (%)	0.82
Expected term (years)	7.50
Expected stock price volatility (%)	29.57
Dividend yield (%)	1.82

A summary of the activity in the Equity Plan for the year ended **December 31, 2022** **December 31, 2023** follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	450,278	\$ 15.64		
Exercised	(5,095)	15.15		
Forfeited	(39,495)	15.32		
Outstanding at December 31, 2022	405,688	\$ 15.67	6.14	\$ 289
Vested and exercisable at December 31, 2022	302,785	\$ 15.88	5.68	\$ 189

	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	(8,280)	(15.46)		
Outstanding at December 31, 2023	367,033	\$ 15.68	5.67	\$ —
Vested and exercisable at December 31, 2023	322,902	\$ 15.79	5.53	\$ —

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There were no options granted during the **year** years ended **ended December 31, 2023 or December 31, 2022**. The weighted average fair value of options granted during the **year ended December 31, 2021 was \$3.71**. Total unrecognized compensation cost related to nonvested stock options granted under the Equity Plan was **\$187 \$56 at December 31, 2022** December 31, 2023. This cost is expected to be recognized over a weighted average period of **1.90 1.62** years.

NOTE 12 13 – 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 year ended December 31, 2023, 10,589 shares were purchased at an average price of \$14.98. During the year ended December 31, 2022, 15,290 shares were purchased at an average price of \$17.22. During the year ended December 31, 2021, 17,971 shares were purchased at an average price of \$21.68.

All employees and Directors are eligible to participate in the NSPP. Expense recognized in relation to the NSPP for the years ended December 31, 2023 and December 31, 2022 was \$27 and December 31, 2021 was \$87, and \$80, respectively.

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 \$351 and \$336 at December 31, 2023 and \$312 at December 31, 2022 and December 31, 2021, respectively, and the related expense for the years ended December 31, 2023 and December 31, 2022 was \$15 and December 31, 2021 was \$23, and \$71, respectively. Payments are expected to begin in July 2024 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. However, there was no match of contributions in 2023. Expense recognized in relation to the 401(k) plan was \$1,580 \$906 and \$2,487 \$1,580 for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, 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 8,493 unallocated shares with a fair value of \$111 and 11,323 unallocated shares with a fair value of \$197 remaining as of December 31, 2022 December 31, 2023 and December 31, 2022, respectively. The ESOP trust's outstanding loan, which is secured by the unallocated shares, bears a fixed interest rate equal to Prime Rate as of the note date, which was 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 Board did not approve any contributions in 2022. The Board approved 1% of salaries for eligible employees in 2021. There was \$71 expense related to the ESOP for the year ended December 31, 2022. Expense related to the ESOP was \$490 for the year ended December 31, 2021.

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 18,706 unallocated shares with a fair value of \$244 remaining as of December 31, 2023. The ESOP trust was issued a five year loan bearing an interest rate equal to 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 2023 and 2022. There was \$133 and \$71 of expense related to the ESOP for the years ended December 31, 2023 and December 31, 2022, respectively.

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NOTE 13.14 – INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 was as follows:

		2022	2021		2023	2022
Current tax provision from continuing operations:	Current tax provision from continuing operations:					
Federal	Federal	\$ 820	\$ (254)	\$	—	\$ 820
State	State	316	(460)	State	—	316
Total current tax provision from continuing operations		1,136	(714)		—	1,136
Deferred expense (benefit) from continuing operations:	Deferred expense (benefit) from continuing operations:					
Federal	Federal	430	2,727			
State	State	(6)	678	State	1,758	430
Total deferred expense from continuing operations		424	3,405		361	(6)
Income tax expense from continuing operations	Income tax expense from continuing operations	1,560	2,691	Income tax expense from continuing operations	2,119	424
Income tax expense (benefit) from discontinued operations	(1,932)	\$ 5,169			2,119	1,560

Income tax benefit from discontinued operations	Income tax benefit from discontinued operations	(70)	\$ (1,932)
Total	Total	\$ (372)	\$ 7,860

The effective tax rate differed from the federal statutory rate of 21% in **2022** **2023** and **2021** **2022** as follows:

	2022	2021	2023	2022
Federal tax based on federal corporate statutory rate	\$ 1,478	\$ 2,461	Federal tax based on federal corporate statutory rate	\$ 1,698
State tax, net of federal effect	250	294	State tax, net of federal effect	361
Changes resulting from:				250
BOLI income	(129)	(76)		
BOLI income				(134)
BOLI income				(129)
Nondeductible Expenses			Nondeductible Expenses	141
Other, net	Other, net	(39)	Other, net	111
Income tax expense from continuing operations	1,560	2,691	Income tax expense from continuing operations	2,119
Income tax expense (benefit) from discontinued operations	(1,932)	5,169	Income tax expense (benefit) from discontinued operations	(70)
Total income tax expense (benefit)	\$ (372)	\$ 7,860	Total income tax expense (benefit)	\$ 2,049
				\$ (372)

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Deferred tax assets and liabilities at **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** were due to the following:

	2022	2021	2023	2022
Deferred tax assets:	Deferred tax assets:			
Allowance for loan losses	\$ 2,379	\$ 3,238		
Allowance for credit losses				

Allowance for credit losses				
Allowance for credit losses			\$ 3,636	\$ 2,379
Net operating loss carryforward	Net operating loss carryforward	2,577	—	Net operating loss carryforward
Deferred loan fees	Deferred loan fees	216	274	Deferred loan fees
Discount on loans sold	Discount on loans sold	826	934	Discount on loans sold
Unrealized loss on available for sale securities	Unrealized loss on available for sale securities	1,301	150	Unrealized loss on available for sale securities
Operating lease liabilities	Operating lease liabilities	1,177	1,143	Operating lease liabilities
Accrued bonuses	Accrued bonuses	256	534	Accrued bonuses
Other	Other	621	812	Other
Total gross deferred tax assets	Total gross deferred tax assets	9,353	7,085	Total gross deferred tax assets
Deferred tax liabilities:	Deferred tax liabilities:			
Fair value adjustments on HFI SBA loans and HFS loans		(221)	(1,074)	
SBA loan servicing rights		(2,764)	(1,542)	
Fair value adjustments on HFI government guaranteed loans and HFS loans				
Fair value adjustments on HFI government guaranteed loans and HFS loans				
Fair value adjustments on HFI government guaranteed loans and HFS loans				
Government guaranteed loan servicing rights				
Government guaranteed loan servicing rights	Government guaranteed loan servicing rights			(906) (221)
Deferred loan costs	Deferred loan costs	(2,889)	(2,193)	Deferred loan costs
Right-of-use operating lease assets	Right-of-use operating lease assets	(930)	(1,094)	Right-of-use operating lease assets
Depreciation	Depreciation	(1,516)	(693)	Depreciation
Other	Other	(53)	(35)	Other
Total gross deferred tax liabilities	Total gross deferred tax liabilities	(8,373)	(6,631)	(10,605) (8,373)
Net deferred tax asset	Net deferred tax asset	\$ 980	\$ 454	

Net deferred tax asset (liabilities)	Net deferred tax asset (liabilities)	\$ (482)	\$ 980
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At December 31, 2023, the Company had \$1,787 of federal net operating loss carryforward and \$374 of state net operating loss carryforward. At December 31, 2022, the Company had \$2,215 of federal net operating loss carryforward and \$362 of state net operating loss carryforward. The net operating loss carryforwards do not expire. At December 31, 2021, the Company did not have any net operating loss carryforward.

The Company and its subsidiary file a consolidated U.S. Corporation federal income tax return which is subject to examination by taxing authorities for years 2019 2020 and later. There were no unrecognized tax benefits at December 31, 2022 December 31, 2023, and the Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. The Company recognizes interest and/or penalties related to income tax matters in income tax expense when applicable. The Company did not record any interest and penalties for 2022 2023 and 2021, 2022.

NOTE 14.15 – 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 December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

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 December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, 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

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326 on January 1, 2021, the Company recognized an after-tax cumulative effect reduction to retained earnings. The 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 December 31, 2023.

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital						
(to Risk Weighted Assets)	\$ 114,256	13.03 %	\$ 70,169	8.00 %	\$ 87,711	10.00 %
Tier 1 Capital						
(to Risk Weighted Assets)	\$ 103,274	11.77 %	\$ 52,627	6.00 %	\$ 70,169	8.00 %
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)	\$ 103,274	11.77 %	\$ 39,470	4.50 %	\$ 57,012	6.50 %
Tier 1 Capital						
(to Average Assets)	\$ 103,274	9.38 %	\$ 44,024	4.00 %	\$ 55,030	5.00 %

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

	Actual		Required for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
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)	\$ 99,269	13.75 %	\$ 43,325	6.00 %	\$ 57,767	8.00 %
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 Average Assets)	\$ 99,269	10.79 %	\$ 36,816	4.00 %	\$ 46,020	5.00 %
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Actual and required capital amounts and ratios for the Bank are presented below at December 31, 2021:

	Required for Capital Adequacy Purposes				To be Well Capitalized Under Prompt Corrective Action Regulations	
	Actual		Amount	Ratio	Amount	Ratio
	Amount	Ratio				
Total Capital						
(to Risk Weighted Assets)	\$ 106,002	21.25 %	\$ 39,909	8.00 %	\$ 49,886	10.00 %
Tier 1 Capital						
(to Risk Weighted Assets)	\$ 99,656	19.98 %	\$ 29,932	6.00 %	\$ 39,909	8.00 %
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)	\$ 99,656	19.98 %	\$ 22,449	4.50 %	\$ 32,426	6.50 %
Tier 1 Capital						
(to Average Assets)	\$ 99,656	12.22 %	\$ 32,619	4.00 %	\$ 40,774	5.00 %

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 16 – MORTGAGE BANKING ACTIVITIES - DISCONTINUED OPERATIONS

The following table presents the components of the residential loan fee income from discontinued operations for the years December 31, 2022 ended December 31, 2023 and December 31, 2021 December 31, 2022:

	Year Ended December 31,		Year Ended December 31,			
	2022	2021				
Net gain realized on sale of residential loans held for sale	Net gain realized on sale of residential loans held for sale		2023	2023	2023	2022
	\$ 19,838	\$ 89,578				
Net change in fair value recognized on residential loans held for sale	Net change in fair value recognized on residential loans held for sale					
	(3,781)	(4,934)				

Net change in fair value recognized on interest rate lock commitments	Net change in fair value recognized on interest rate lock commitments	(1,437)	(6,194)
Net change in fair value recognized on mandatory and best efforts forward sales contracts	Net change in fair value recognized on mandatory and best efforts forward sales contracts	12,620	7,229
Mortgage banking fees	Mortgage banking fees	4,162	9,864
Residential loan fee income from discontinued operations	Residential loan fee income from discontinued operations	\$31,402	\$95,543

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As part of its nationwide mortgage banking activities, 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.

At December 31, 2022, the Company had There were no interest rate lock commitments or mandatory forward contracts and \$221 of forward sales contracts. At December 31, 2021, the Company had interest rate lock commitments of \$108,122, mandatory forward contracts of \$142,500, and forward sales contracts of \$7,375. The fair value of these mortgage banking derivatives was reflected by a total derivative asset from discontinued operations outstanding as of \$1,550 and a total derivative liability from discontinued operations of \$189 at December 31, 2021 December 31, 2023. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in the fair values of these mortgage banking derivatives are included in income (loss) from discontinued operations in the Consolidated Statements of Income.

The net gains (losses) relating to free-standing derivative instruments used for risk management at December 31, 2022 and December 31, 2021 are summarized below:

	December 31, 2022	December 31, 2021
Mandatory forward sales contracts	\$ —	\$ (78)
Best efforts forward sales contracts	—	27
Interest rate lock commitments	—	1,412

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 and December 31, 2021:

	December 31, 2022		December 31, 2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets from discontinued operations:				
Interest rate lock commitments	\$ —	\$ —	103,572	\$ 1,435
Mandatory forward sales contracts	—	—	60,000	88
Best efforts forward sales contracts	221	—	7,375	27
Included in other liabilities from discontinued operations:				
Interest rate lock commitments	—	—	4,550	23
Mandatory forward sales contracts	—	—	82,500	166

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

NOTE 16 17 – RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates during 2022 2023 and 2021 2022 were as follows:

	2022	2021		2023		2022
Balance at January 1	\$ 7,314	\$ 10,028	Balance at January 1		\$ 5,649	\$ 7,314
New loans	576	347				
Repayments	(638)	(3,061)				
Effect of changes in composition of related parties	(1,603)	—				
Balance at December 31	\$ 5,649	\$ 7,314				

Deposits from principal officers, directors, and their affiliates at December 31, 2023 and December 31, 2022 were \$8,337 and December 31, 2021 were \$5,518, and \$7,112, respectively.

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The Company leases a portion of an office building from a related party of a Company Director. Rent payments related to these leases amounted to \$647 \$709 and \$539 \$647 for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

The Company entered into transactions during the normal course of business with an insurance agency that is a related party of a Company Director. Payments to the insurance agency amounted to \$316 \$405 and \$299 \$316 for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

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NOTE 17 18 – 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 December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 were as follows:

	December 31, 2022	December 31, 2021		December 31, 2023		December 31, 2022
Unfunded loan commitments			December 31, 2023			December 31, 2022
Unused lines of credit						
December 31, 2023						
Unfunded loan commitments	\$ 23,512	\$ 18,567				
Unused lines of credit	134,366	52,076				

Standby letters of credit	Standby letters of credit	244	68
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All unused lines of credit at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 were variable rate lines of credit and the majority of unfunded loan commitments at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 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 December 31, 2023 and December 31, 2022, ACL for off-balance sheet loan commitments totaled \$839 and \$511, respectively.

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NOTE 18.19 – EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

		Year Ended December 31,			
		2022	2021		
Basic:	Basic:			2023	2022
Income from continuing operations	Income from continuing operations	\$ 5,478	\$ 9,029		
Income (loss) from discontinued operations		(5,827)	15,589		
Income from continuing operations					
Income from continuing operations					
Loss from discontinued operations					
Net income (loss)	Net income (loss)	(349)	24,618		
Less: Preferred stock dividends	Less: Preferred stock dividends	832	1,005		
Net income available to (loss attributable to) common shareholders	Net income available to (loss attributable to) common shareholders	\$ (1,181)	\$ 23,613		
Weighted average common shares outstanding	Weighted average common shares outstanding	4,020,933	3,802,935		

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
Continuing operations	Continuing operations \$ 1.16 \$ 2.11
Discontinued operations	Discontinued operations (1.45) 4.10
Total	Total \$ (0.29) \$ 6.21
Diluted:	Diluted:
Diluted:	Diluted:
Income from continuing operations	Income from continuing operations \$ 5,478 \$ 9,029
Income (loss) from discontinued operations	(5,827) 15,589
Income from continuing operations	Income from continuing operations
Income from continuing operations	Income from continuing operations
Loss from discontinued operations	Loss from discontinued operations
Net income (loss)	Net income (loss) (349) 24,618
Less:	Less:
Preferred stock dividends	Preferred stock dividends 832 1,005
Add: Series B preferred stock dividends	Add: Series B preferred stock dividends 257 429
Net income available to (loss attributable to) common shareholders	Net income available to (loss attributable to) common shareholders \$ (924) \$ 24,042
Weighted average common shares outstanding for basic earnings per common share	Weighted average common shares outstanding for basic earnings per common share 4,020,933 3,802,935

Add: Dilutive effects of conversion of Series B preferred stock to common stock	Add: Dilutive effects of conversion of Series B preferred stock to common stock	155,692	156,363
Add: Dilutive effects of assumed exercises of stock options and warrants	Add: Dilutive effects of assumed exercises of stock options and warrants	44,000	111,905
Average shares and dilutive potential common shares	Average shares and dilutive potential common shares	4,220,625	4,071,203
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		
Continuing operations	Continuing operations	\$ 1.16	\$ 2.08
Discontinued operations	Discontinued operations	(1.38)	3.83
Total	Total	\$ (0.22)	\$ 5.91

The Company uses the treasury stock method to calculate the dilutive effect of following securities outstanding equity awards in the denominator for diluted EPS to the extent the impact of such exchange would not be anti-dilutive. For the year ended at December 31, 2023 and December 31, 2022, 1,500 common stock options were excluded in computing diluted have been excluded from the calculation of weighted average shares outstanding as their effect on the calculation of earnings (loss) per common share because they were anti-dilutive. There were no common stock options excluded in computing diluted earnings per common share for the year ended December 31, 2021, are antidilutive:

	Year Ended December 31,	
	2023	2022
Common stock options	372,892	1,500

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

NOTE 19 20 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of BayFirst Financial Corp. follows:

	BALANCE SHEETS - PARENT COMPANY	
	December 31,	
	2022	2021
Assets:		
Cash on deposit with subsidiary	\$ 559	\$ 2,551

Loans to bank subsidiary	52	—
Loans held for investment, at amortized cost	36	36
Investment in subsidiary	100,225	103,481
Other assets	146	158
Total Assets	\$ 101,018	\$ 106,226
Liabilities:		
Subordinated debentures	\$ 5,992	\$ 5,985
Notes payable	2,844	3,299
Accrued interest payable	14	8
Accrued expenses and other liabilities	284	644
Total liabilities	9,134	9,936
Stockholders' equity:		
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding; 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; aggregate liquidation preference of \$3,210	3,123	3,123
Common stock and additional paid-in capital; no par value, 15,000,000 shares authorized, 4,042,474 and 3,981,117 shares issued and outstanding	53,023	51,496
Accumulated other comprehensive loss, net	(3,724)	(420)
Unearned compensation	(178)	(17)
Retained earnings	33,479	35,947
Total stockholders' equity	91,884	96,290
Total liabilities and stockholders' equity	\$ 101,018	\$ 106,226

STATEMENTS OF INCOME - PARENT COMPANY			
	For the Years Ended December 31,		
	2022	2021	
Income:			
Dividend and interest income from bank subsidiary	\$ 1,764	\$ 1,000	
Expense:			
Interest expense	430	567	
Other expenses	1,436	1,279	
Total expense	1,866	1,846	
Loss before taxes and equity in earnings of subsidiary	(102)	(846)	
Income tax benefits	(435)	(434)	
Income (loss) before equity in earnings of subsidiary	333	(412)	
Equity in undistributed earnings of subsidiary	(682)	25,030	
Net income (loss)	\$ (349)	\$ 24,618	

BALANCE SHEETS - PARENT COMPANY			
	December 31,		
	2023	2022	
Assets:			
Cash on deposit with subsidiary	\$ 954	\$ 559	
Loans to bank subsidiary	17	52	
Loans HFI, at amortized cost	—	36	
Investment in subsidiary	107,737	100,225	
Other assets	911	146	
Total Assets	\$ 109,619	\$ 101,018	
Liabilities:			
Subordinated debentures	\$ 5,949	\$ 5,992	
Notes payable	2,389	2,844	

Accrued interest payable	13	14
Accrued expenses and other liabilities	561	284
Total liabilities	8,912	9,134
Stockholders' equity:		
Preferred stock, Series A; no par value, 10,000 shares authorized, 6,395 shares issued and outstanding; 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; aggregate liquidation preference of \$3,210	3,123	3,123
Preferred stock, Series C; no par value, 10,000 shares authorized, 6,446 shares issued and outstanding at December 31, 2023 and no shares issued and outstanding at December 31, 2022; aggregate liquidation preference of \$6,446 at December 31, 2023	6,446	—
Common stock and additional paid-in capital; no par value, 15,000,000 shares authorized, 4,110,470 and 4,042,474 shares issued and outstanding	54,521	53,023
Accumulated other comprehensive loss, net	(2,981)	(3,724)
Unearned compensation	(958)	(178)
Retained earnings	34,395	33,479
Total stockholders' equity	100,707	91,884
Total liabilities and stockholders' equity	\$ 109,619	\$ 101,018

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

	STATEMENTS OF CASH FLOWS - PARENT COMPANY	
	For the Year Ended December 31,	2022
Cash flows from operating activities:		2021
Net income (loss)	\$ (349)	\$ 24,618
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Equity in earnings from subsidiary	682	(25,030)
Amortization of debt issuance costs	7	105
Stock based compensation expense	—	51
Change in other assets	12	(105)
Change in other liabilities and accrued interest payable	(237)	459
Net cash from operating activities	115	98
Cash flows from investing activities:		
Loan origination and payments, net	—	27
Net cash from investing activities	—	27
Cash flows from financing activities:		
Net increase of loans to bank subsidiary	(52)	—
Payments on notes payable	(455)	(455)
Proceeds from issuance of subordinated debt, net of costs	—	5,932
Redemption of subordinated debt	—	(6,000)
Proceeds from issuance of preferred stock, net	—	727
Proceeds from sale of common stock, net	509	1,850
Share buyback - redeemed stock	(49)	—
ESOP contribution	71	366
Unearned ESOP shares allocation	(15)	(371)
Dividends paid on common stock	(1,287)	(1,056)
Dividends paid on preferred stock	(832)	(1,005)
Net cash from financing activities	(2,110)	(12)
Net change in cash	(1,995)	113

Cash at beginning of year	2,551	2,438
Cash at end of year	\$ 556	\$ 2,551
Supplemental noncash disclosures		
Conversion of Series B preferred stock to common stock	\$ —	\$ 6,120

STATEMENTS OF INCOME - PARENT COMPANY		
	For the Year Ended December 31,	
	2023	2022
Income:		
Dividend and interest income from bank subsidiary	\$ 2,525	\$ 1,764
Expense:		
Interest expense	496	430
Other expenses	993	1,436
Total expense	1,489	1,866
Income (loss) before taxes and equity in earnings of subsidiary	1,036	(102)
Income tax benefits	(376)	(435)
Income before equity in earnings of subsidiary	1,412	333
Equity in undistributed earnings of subsidiary	4,290	(682)
Net income (loss)	\$ 5,702	\$ (349)

NOTE 20 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events for recognition and disclosure through March 27, 2023, which is the date the financial statements were available to be issued. The Company does not believe there are any material subsequent events that would require further recognition or disclosure.

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

STATEMENTS OF CASH FLOWS - PARENT COMPANY		
	For the Year Ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net income (loss)	\$ 5,702	\$ (349)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Equity in earnings (loss) from subsidiary	(4,290)	682
Amortization of debt issuance costs	7	7
Change in other assets	(765)	12
Change in other liabilities and accrued interest payable	255	(234)
Net cash from operating activities	909	118
Cash flows from investing activities:		
Loan origination and payments, net	36	—
Capital infusion to subsidiaries	(4,335)	—
Net cash from investing activities	(4,299)	—
Cash flows from financing activities:		
Net increase of loans to bank subsidiary	35	(52)
Payments on notes payable	(455)	(455)
Repayment of subordinated debt	(50)	—
Proceeds from issuance of preferred stock, net	6,446	—

Proceeds from sale of common stock, net	289	509
Share buyback - redeemed stock	(13)	(49)
ESOP contribution	—	71
Unearned ESOP shares allocation	(189)	(15)
Dividends paid on common stock	(1,313)	(1,287)
Dividends paid on preferred stock	(965)	(832)
Net cash from financing activities	3,785	(2,110)
Net change in cash	395	(1,992)
Cash at beginning of year	559	2,551
Cash at end of year	\$ 954	\$ 559

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

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosures

None.

Item 9A. 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 **December 31, 2022** December 31, 2023, the last day of the period covered by this Annual Report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of **December 31, 2022** December 31, 2023, 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.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is set forth under the headings "Proposal 1 – Election of Directors", "Meetings", and "Nominating Committee" appearing in the Company's Proxy Statement for the **2023** **2024** annual meeting of shareholders to be filed within 120 days after **December 31, 2022** December 31, 2023, which is incorporated herein by reference.

Item 11. Executive Compensation

Information required by this item is set forth under the headings "Executive and Director Compensation" appearing in the Company's Proxy Statement for the **2023** **2024** annual meeting of shareholders to be filed within 120 days after **December 31, 2022** December 31, 2023, which is incorporated herein by reference.

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

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plans. The following table discloses the number of outstanding options, warrants and rights granted to participants by the Company under the equity compensation plans, as well as the number of securities remaining available for future issuance under these plans as of **December 31, 2022** December 31, 2023. The Company does not have any outstanding warrants. Additional information regarding stock incentive plans is presented in [Note 11](#) to the consolidated financial statements included pursuant to Item 8 to this Form 10-K.

		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))		
		Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	Equity compensation plans approved by security holders	405,688 \$ 15.67	124,109	
Equity compensation plans not approved by security holders	Equity compensation plans not approved by security holders	—	—	—
Total	Total	405,688 \$ 15.67	124,109	

Other information required by this item is set forth under the heading "Security Ownership of Certain Beneficial Owners and Management" appearing in the Company's Proxy Statement for the 2023 2024 annual meeting of shareholders to be filed within 120 days after December 31, 2022 December 31, 2023, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item is set forth under the headings "Transactions with Related Persons" and "Director Independence" appearing in the Company's Proxy Statement for the 2023 2024 annual meeting of shareholders to be filed within 120 days after December 31, 2022 December 31, 2023, which is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information required by this item is set forth under the heading "Fees Paid to Auditors" and "Audit Committee Report" appearing in the Company's Proxy Statement for the 2023 2024 annual meeting of shareholders to be filed with the SEC within 120 days after December 31, 2022 December 31, 2023, which is incorporated herein by reference. The Independent Registered Public Accounting Firm is FORVIS, LLP (PCAOB Firm ID No. 686) located in Tampa, Florida.

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

Part IV

ITEM 15. 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
*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
*10.14.4	Employment Agreement with Anthony N. Leo, dated April 18, 2017 Form of Series C Cumulative Convertible Preferred Stock certificate
*10.2 10.1	Salary Continuation Agreement with Anthony N. Leo, dated April 18, 2017
10.3	Amended and Restated 2017 Equity Incentive Plan
10.4 *10.2	Form of Stock Option Agreement under Amended and Restated 2017 Equity Incentive Plan
10.5 *10.3	Form of Restricted Stock Award Grant Notice under Amended and Restated 2017 Equity Incentive Plan
10.6 *10.4	Form of Restricted Stock Unit Award Grant Notice under Amended and Restated 2017 Equity Incentive Plan
10.7 *10.5	Amended and Restated Dividend Reinvestment and Stock Purchase Plan
*10.8 10.6	2015 Non-Qualified Employee Stock Purchase Plan Amended and Restated, dated January 25, 2022
*10.9 10.7	First Amendment to 2015 Non-Qualified Employee Stock Purchase Plan
*10.10 10.8	Business Loan Agreement with First National Bankers Bank, dated March 10, 2021
*10.11 10.9	Form of 4.5% Fixed-to-Floating Subordinated Note Due 2021 issued on June 30, 2021
*10.12 10.10	Employment Agreement with Thomas G. Zernick, dated October 20, 2021
*10.13 10.11	Employment Agreement with Robin L. Oliver, dated October 20, 2021
*10.12	Employment Agreement with Scott J. McKim, dated July 24, 2023
*14.1	Code of Ethics
*21.1	Subsidiaries of Registrant
23.1	Consent of FORVIS LLP
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
97	Executive Incentive Compensation Clawback Policy
101	Financial information from the Company's Annual Report on Form 10-K for the year ended December 31, 2022 , 2023, 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)

Item 16. Form 10-K Summary

None.

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

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: March 27, 2023 28, 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: March 27, 2023 28, 2024

By: /s/ Robin L. Oliver Scott J. McKim

Robin L. Oliver Scott J. McKim

Chief Financial Officer and Chief Operating Officer

(principal financial officer) Principal Financial Officer)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Derek S. Berset</u> Derek S. Berset	Director	3/27/2023 28/2024
<u>/s/ Mark S. Berset</u> Mark S. Berset	Director	3/27/2023 28/2024
<u>/s/ Dennis R. DeLoach, III</u> Dennis R. DeLoach, III	Director	3/27/2023 28/2024
<u>/s/ Alexander Harris</u> Alexander Harris	Director	3/27/2023 28/2024
<u>/s/ Tarek Helal</u> Tarek Helal	Director	3/27/2023 28/2024
	Chief Executive Officer and Director (Principal Executive Officer)	
<u>/s/ Anthony N. Leo</u> Anthony N. Leo	Director	3/27/2023 28/2024
<u>/s/ Robin L. Oliver Scott J. McKim</u> Robin L. Oliver Scott J. McKim	Chief Financial Officer and Chief Operating Officer (Principal Financial and Accounting Officer)	3/27/2023 28/2024
<u>/s/ Christos Politis, M.D.</u> Christos Politis, M.D.	Director	3/27/2023 28/2024
<u>/s/ Anthony Saravacos</u> Anthony Saravacos	Director	3/27/2023 28/2024
<u>/s/ Bradly W. Spoor</u> Bradly W. Spoor	Director	3/27/2023 28/2024
<u>/s/ Rhonda S. Tudor</u> Rhonda S. Tudor	Chief Accounting Officer (Principal Accounting Officer)	3/22/2024
<u>/s/ Sheryl WuDunn</u> Sheryl WuDunn	Director	3/27/2023 28/2024
	President	
<u>/s/ Thomas G. Zernick</u> Thomas G. Zernick	Chief Executive Officer and Director (Principal Executive Officer)	3/27/2023 28/2024
<u>/s/ Barbara Zipperian</u> Barbara Zipperian	Director	3/27/2023 28/2024

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BAYFIRST FINANCIAL CORP. AMENDED AND RESTATED 2017 EQUITY INCENTIVE PLAN

Section 1. General Purpose of Plan; Definitions.

The name of this plan is the BayFirst Financial Corp. Amended and Restated 2017 Equity Incentive Plan (the "Plan"). The Plan was approved by the Board of Directors on February 20, 2018 (the "Effective Date"), adopted by the shareholders of the Company on April 11, 2018, and amended by the Board on September 27, 2022. The purpose of the Plan is to enable the Company to attract and retain highly qualified personnel who will contribute to the Company's success and to provide incentives to Participants to increase shareholder value and therefore further align the interests of the Participants with those of the shareholders to benefit all shareholders of the Company.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) **Administrator** means the Committee, under the terms as set forth in more detail in Section 2 below and except as limited by the express provisions of the Plan or by resolutions adopted by the Board.

(b) **Award** means any award granted under the Plan as further described in Sections 6 and 7 below.

(c) **Award Agreement** means, with respect to each Award, the signed written agreement between the Company and the Participant setting forth the terms and conditions applicable to the Award.

(d) **Board** means the Board of Directors of the Company.

(e) **Cause** means as set forth in the Participant's written employment, consulting or similar agreement with the Company or, if "Cause" is not defined therein, or if there is no such agreement, "Cause" shall mean termination by the Company on account of acts or omissions of fraud, dishonesty, incompetence, willful misconduct, any breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations, regulations that do not adversely affect the Company or its employees, or similar offenses) or final cease-and-desist order, or material breach of any provision of an agreement with the Company. In determining incompetence, the acts or omissions shall be measured against standards generally prevailing in the community banking industry. No act or failure to act shall be considered "willful" unless done, or omitted to be done, not in good faith and without reasonable belief that the Participant's action or omission was in the best interest of the Company. The determination of "Cause" may be made by the Administrator solely for purposes of this Plan and without regard to any other purpose of the Company.

(f) **Change in Control** means the first to occur of any one of the events:

(i) the date any Person (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) or more than one Person acting as a group (as determined under Treasury Regulation §1.409A-3(i)(5)(v)(B)), acquires

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ownership of the stock of the Company that, together with stock held by such Person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company. This section applies only when there is a transfer of stock of the Company (or issuance of stock of the Company) and stock in the Company remains outstanding after the transaction;

(ii) the date any one Person, or more than one Person acting as a group (as defined under Treasury Regulation §1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) ownership of stock of the Company possessing 30% or more of the total voting power of the stock of the Company;

(iii) the date individuals who, as of the Effective Date, constituted the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding or this purpose any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iv) the date that any Person or more than one Person acting as a group (as defined under Treasury Regulation §1.409A-3(i)(5)(v)(B)) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all assets of the Company immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

Notwithstanding the foregoing, a Change in Control shall only be deemed to have occurred if the Change in Control otherwise constitutes a change in the ownership or effective control of the Company, or a change in the ownership of a substantial portion of the assets of the Company, within the meaning of Section 409A of the Code and the regulations and rulings thereunder ("Section 409A").

In addition, a Change in Control will not include (1) a transaction in which the holders of the outstanding voting securities of the Company immediately prior to the transaction hold at least 50% of the outstanding voting securities of the successor company immediately after the transaction; (2) any transaction or series of transactions principally for bona fide equity financing purposes in which cash is received by the Company or any successor company or indebtedness of the Company is cancelled or converted or a combination thereof, (3) a sale, lease,

exchange or other transfer of all or substantially all of the Company's assets to a majority-owned subsidiary of the Company; or (4) a transaction undertaken for the principal purpose of restructuring the capital of the Company, including, but not limited to, reincorporating the Company in a different jurisdiction. Also, when a Change in Control occurs due to a series of related transaction, the Change in Control is deemed to have occurred upon consummation of the last of the related transactions.

(g) Code means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(h) Committee means the Compensation Committee of the Board or, if applicable, any other committee the Board may appoint to administer the Plan. If at any time or to any extent the Committee shall not administer the Plan, then the functions of the Administrator specified in the Plan may be exercised by the Board. The Committee shall be comprised of three or more "non-employee directors" as defined in Rule 16b-3 under the Securities Exchange Act of 1934 and "independent directors" as defined by NASDAQ Listing Rule 5605(a)(2).

(i) Common Stock or Stock means the common stock, par value \$1.00 per share, of the Company.

(j) Company means BayFirst Financial Corp. (f/k/a First Home Bancorp, Inc.), a Florida corporation (or any successor corporation that assumes this Plan, either contractually or by operation of law).

(k) Eligible Recipient means an officer, director, employee, consultant, or advisor (including a member of an advisory board) of the Company or any subsidiary of the Company.

(l) Exercise Price means the per share price at which a Participant holding an Award of Options may purchase Shares issuable with respect to such Award of Options, if any.

(m) Fair Market Value on any date shall mean:

(i) If the Common Stock is readily tradable on an established securities market (as defined in Treasury Regulation §1.897-1(m)) (other than if the Common Stock is quoted on an over-the-counter market), the closing sales price of the Common Stock on such date, or if there is no reported closing sales price on such date, the next preceding date on which there was a reported closing sales price; or

(ii) If the Common Stock is not readily tradable on an established securities market (as defined in Treasury Regulation §1.897-1(m)), the fair market value as determined in good faith by the Board or the Committee by application of a reasonable valuation method consistently applied and taking into consideration all available information material to the value of the Company; factors to be considered may include, as applicable, independent third party valuations of the Common Stock, trading activity of the Common Stock known by the Board or the Committee, whether on the over-the-counter market or through private

transactions, the value of the tangible and intangible assets of the Company, the present value of future cash-flows of the Company, the market value of stock or equity interests in similar corporations which can be readily determined through objective means (such as through trading prices on an established securities market or an amount paid in an arm's length private transaction), and other relevant factors such as control premiums or discounts for lack of marketability. For purposes of the foregoing, a valuation prepared in

accordance with any of the methods set forth in Treasury Regulation §1.409A-1(b)(5)(vi)(B)(2) consistently used, shall be rebuttably presumed to result in a reasonable valuation. This paragraph is intended to comply with the definition of "fair market value" contained in Treasury Regulation § 1.409A-1(b)(5)(iv) and should be interpreted consistently therewith.

(n) **"Grant Date"** means the date on which the Administrator completes the corporate action authorizing the grant of an Award.

Corporate action constituting a grant by the Administrator of an Award to any Participant shall be deemed completed as of the date of such corporate action, unless otherwise determined by the Administrator, regardless of when the instrument, certificate, or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant.

(o) **"Incentive Stock Option"** or **"ISO"** means any Option intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

(p) **"Nonqualified Stock Option"** or **"NQSO"** means any Option that is not an Incentive Stock Option, including any Option that provides (as of the time such Option is granted) that it will not be treated as an Incentive Stock Option.

(q) **"Option"** means an option to purchase Shares granted pursuant to Section 6 of the Plan.

(r) **"Other Stock-Based Award"** means a right granted pursuant to Section 8 of the Plan that relates to or is valued by reference to Shares or other Awards relating to Shares.

(s) **"Participant"** means any Eligible Recipient selected by the Administrator, pursuant to the Administrator's authority in Section 2 of the Plan, to receive an Award.

(t) **"Participating Employer"** means any member of the following group, which includes the Company, if such member agrees, in writing, to be bound by the terms of the Plan:

- (i) a controlled group of corporations, within the meaning of Code Section 414(b),
- (ii) a group of trades or businesses under common control, within the meaning of Code Section 414(c),
- (iii) an affiliated service group, within the meaning of Code Section 414(m), or
- (iv) a trade or business required to be aggregated pursuant to Code Section 414(o).

Each Participating Employer is identified in [Appendix A](#). The Company shall amend Appendix A as needed to reflect a Participating Employer's adoption of the Plan or withdrawal from the Plan, without any need to otherwise amend the Plan. Amendment of Appendix A may be made by any authorized officer or designated representative of the Company and shall not require approval of the Board.

(u) **"Performance Goals"** means the performance goals established by the Administrator in connection with the grant of Awards.

Performance Goals may be based upon any individual Participant or Company criteria or metric that the Administrator may determine, including, but not limited to, the attainment of specified levels of one or more of the following measures: stock price, earnings (including earnings before taxes, earnings before interest and taxes or earnings before interest, taxes, depreciation and amortization), prescribed rating, earnings per share, operating earnings per share, return on equity, return on assets or operating assets, percentage of non-performing assets, asset quality, level of classified assets, net interest margin, loan portfolio growth, efficiency ratio, deposit portfolio growth, liquidity, market share, objective customer service measures or indices, economic value added, shareholder value added, embedded value added, combined ratio, pre- or after-tax income, net income, cash flow (before or after dividends), cash flow per share (before or after dividends), gross margin, risk-based capital, revenues, revenue growth, return on capital (including return on total capital or return on invested capital), cash flow return on investment, cost control, gross profit, operating profit, cash generation, unit volume, sales, asset quality, cost saving levels, market-spending efficiency, core non-interest income or change in working capital, in each case with respect to the Company or any one or more subsidiaries, divisions, business units or business segments thereof, either in absolute terms or relative to the performance of one or more other companies (including an index covering multiple companies). Performance for any goal can be measured on an absolute basis (i.e., versus the Company's budget or prior year result) or relative to a peer group or industry index, as well as over a one-year or multi-year period. In any event, the Administrator shall have the authority to adjust any Performance Goal for unusual or non-recurring events.

(v) "Performance Period" is a period not less than one calendar year, beginning not earlier than the year in which such Performance Award is granted, which may be referred to herein and by the Administrator by use of the calendar year in which a particular Performance Period commences; provided, however, that the Administrator shall have the authority to adjust a Performance Period for unusual or non-recurring events to a period of not less than six months.

(w) "Permanent and Total Disability" shall have the same meaning as given to that term by Treasury Regulation Section 1.409A-3(i) (4) and any regulations or rulings promulgated thereunder.

(x) "Restricted Stock" means Shares subject to certain restrictions granted pursuant to Section 7 of the Plan.

(y) "Restricted Stock Unit" means a right granted pursuant to Section 7 of the Plan and denominated in Shares that will be settled, subject to the terms and conditions of the Restricted Stock Units, in cash, Shares, or a combination of both, based upon the Fair Market Value of a specified number of Shares.

(z) "Shares" means shares of Common Stock reserved for issuance under the Plan, as adjusted pursuant to Sections 3 or 4 of the Plan, and any successor security.

(aa) "Substitute Awards" means Awards granted or shares of Common Stock issued by the Company in substitution or exchange for awards previously granted by an Acquired Entity.

(bb) "Treasury Regulations" means regulations promulgated by the United States Department of Treasury pursuant to the Code, including proposed or temporary regulations as applicable.

Section 2. Administration.

The Plan shall be administered by the Administrator. Pursuant to the terms of the Plan, the Committee shall serve as the Administrator and shall have the power and authority:

- (a) to select those Eligible Recipients who shall be Participants;
- (b) to determine whether and the extent to which Awards are to be granted to Participants under the Plan;
- (c) to determine the number of Shares to be covered by or subject to each Award granted under the Plan;
- (d) to determine the terms and conditions, not inconsistent with the terms of the Plan, of each Award granted under the Plan; and
- (e) to determine the terms and conditions, not inconsistent with the terms of the Plan, that shall govern all written instruments evidencing Awards granted under the Plan, including Award Agreements.

The Administrator shall have the authority, in its sole discretion, to: adopt, alter, and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable; correct any defect, supply any omission, reconcile any inconsistency, and resolve any ambiguity in, and otherwise interpret, the terms and provisions of the Plan and any Award issued under the Plan (and any Award Agreement relating thereto); and otherwise supervise the administration of the Plan. All decisions made by the Administrator pursuant to the provisions of the Plan shall be final, conclusive and binding on all persons, including the Company and the Participants. Except to the extent prohibited by applicable law, the Administrator may delegate to one or more individuals the day-to-day administration of the Plan and any of the functions assigned to it in this Plan. Such delegation may be revoked at any time.

Notwithstanding the above, and subject to Sections 3, 4, 6, 9, 10 and 13, outstanding Options granted under the Plan shall not be repriced without approval by the Company's shareholders. In particular, neither the Board nor the Administrator may take any action: (1) to amend the terms of an outstanding Option to reduce the Exercise Price thereof, cancel an Option and replace it with a new Option with a lower Exercise Price, or that has an economic effect that is the same as any such reduction or cancellation or (2) to cancel an outstanding Option having an Exercise Price above the then-current Fair Market Value of the Stock in exchange for the grant of another type of Award, without, in each such case, first obtaining approval of the shareholders of the Company of such action.

Section 3. Shares Subject to the Plan.

Subject to Section 4 of the Plan, the total number of Shares reserved and available for issuance under the Plan shall be 15% of the total number of shares of Company common stock issued and outstanding from time to time; provided the maximum aggregate number of reserved shares shall not exceed 1,000,000 shares. Such Shares may consist in whole or in part, of authorized and unissued shares or treasury shares. At all times the Company shall reserve and keep available a sufficient number of shares as shall be required to satisfy the requirements of all outstanding Options under the Plan. No fractional Shares shall be issued or delivered pursuant to the Plan. The Administrator shall determine whether cash, additional Awards or other securities or property shall be issued or paid in lieu of fractional Shares or whether any fractional shares should be rounded, forfeited or otherwise eliminated.

(a) **Reissuance of Shares.** Shares of Common Stock covered by an Award shall not be counted as used unless and until they are actually issued and delivered to a Participant. If any Award lapses, expires, terminates or is canceled prior to the issuance of shares thereunder or if shares of Common Stock covered by an Award are settled in cash in a manner that some or all of the shares covered by the Award are not issued, the shares subject to such Awards and the unissued shares resulting from the cash settlement shall again be available for issuance under the Plan. If any shares of Common Stock subject to an Award are not delivered to a Participant because the Award is exercised through a reduction of shares subject to the Award (i.e., "net exercised"), including if the tax withholding obligations relating to any Award are satisfied by delivering Shares of Common Stock (either actually or through attestation) or withholding Shares of Common Stock relating to such Award, the number of shares of Common Stock that are not delivered to the Participant shall no longer be available for issuance under the Plan. For the sake of clarification, any shares of Common Stock reacquired by the Company pursuant to Section 6 upon the exercise of an Option or as consideration for the exercise of an Option shall no longer be available for issuance under the Plan. The number of shares of Common Stock available for issuance under the Plan shall not be reduced to reflect any dividends that are reinvested into additional shares of Common Stock or credited as additional shares of Common stock subject to or paid with respect to an Award.

(b) **Performance Goals.** The Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Administrator also has the authority to provide for accelerated vesting of any Award based on the achievement of Performance Goals pursuant to the performance criteria specified for such Award. In the event that applicable tax and/or securities laws change to permit the Administrator discretion to alter the governing performance criteria without obtaining shareholder approval of such changes, the Administrator shall have sole discretion to make such changes without obtaining shareholder approval.

(c) **Substitute Awards.** Notwithstanding any other provision of the Plan to the contrary, the Administrator may grant Substitute Awards under the Plan. In the event that a written agreement between the Company and an Acquired Entity pursuant to which a merger or consolidation is completed and approved by the Board and that agreement sets forth the terms and conditions of the substitution for or assumption of outstanding awards of the Acquired Entity, those terms and conditions shall be deemed to be the action of the Administrator without

any further action by the Administrator, and the persons holding such awards shall be deemed to be Participants with respect to the Substitute Awards.

(d) **Administrator's Discretion to Accelerate Vesting of Awards.** Except upon the occurrence of a Change in Control (which is governed by the provisions of Section 10 hereof), the Administrator may, in its discretion and as of a date determined by the Administrator, fully vest any or all Awards awarded to a Participant pursuant to an Award and, upon such vesting, all vesting restrictions applicable to such Award shall terminate as of such date. Any action by the Administrator pursuant to this section may vary among individual Participants and may vary among the Awards held by any individual Participant.

(e) **Forfeiture of Awards; Clawback of Shares.** If the Company's or any of its financial institution subsidiaries' capital falls below the minimum requirements contained in 12 CFR Section 3 or below a higher requirement as determined by the Company's or such subsidiary's primary bank regulatory agency, such agency may direct the Company to require Participants to exercise or forfeit some or all of their Awards. All Awards granted under this Plan are subject to the terms of any such directive. In addition, Awards granted under this Plan within the prior two years of the

event described in subsections (i)-(iii) below shall be forfeited and the Participant shall be obligated to repay the value realized, if any, from the conversion of Awards into shares of Stock under the following circumstances:

- (i) Termination of employment or service for Cause;
- (ii) A restatement of financial results attributable to the Participant's actions, whether intentional or negligent; and
- (iii) The Administrator determines that Award vesting was based on incorrect performance measurement calculations. In such event, vesting (and recoupment, if applicable) will be adjusted consistent with the actual, corrected results.

Notwithstanding the forgoing sentence, the Administrator shall have the authority, in its sole discretion, to not enforce the foregoing clawback of Shares if it determines that such clawback would not be in the best interest of the Company and its shareholders.

Section 4. Corporate Transactions.

Subject to the provisions of Section 10 hereof relating to a Change in Control, in the event of any merger, consolidation, combination, reorganization, recapitalization, reclassification, extraordinary cash dividend, stock dividend, stock split, reverse stock split, or other change in corporate structure, the Administrator shall make an equitable substitution or proportionate adjustment in (i) the aggregate number of Shares reserved for issuance under the Plan, and (ii) the kind, number, and Exercise Price of Shares (or other cash or property) issuable with respect to outstanding Options granted under the Plan (which may become, without limitation, shares of an acquiring entity or other successor corporation that assumes this Plan), and (iii) the kind and number of Shares subject to any outstanding Awards of Restricted Stock and Restricted Stock Units granted under the Plan (which may become, without limitation, shares of an acquiring entity or other successor corporation that assumes this Plan), in each case as may be determined by the Administrator, in its sole discretion; provided, that with respect to ISOs, any adjustment shall be made in accordance with the provisions of Section 424(h) of the Code and any regulations or guidance promulgated thereunder; and provided, further, that no such

adjustment shall cause any Award hereunder which is or becomes subject to Section 409A of the Code to fail to comply with the requirements of Section 409A of the Code.

Section 5. Eligibility.

The Participants under the Plan shall be selected from time to time by the Administrator, in its sole discretion, from among the Eligible Recipients. Participation in the Plan through receipt of an Award in any year does not guarantee a Participant participation in future years or participation at the same level. The Administrator shall have the authority to grant Awards under the Plan to the Eligible Recipients; provided, however, that only current employees of the Company and any Participating Employer may be granted ISOs.

Section 6. Options.

Options may be granted alone or in addition to other Awards granted under the Plan. Any Option granted under the Plan shall be substantially in the form as the Administrator may from time to time approve, and the provisions of each Option need not be the same with respect to each Participant. Participants who are granted Options shall enter into an Award Agreement with the Company in such form as the Administrator shall determine, which Award Agreement shall set forth, among other things, the Exercise Price of the Option, the term of the Option and provisions regarding exercisability of the Option granted in connection with such Award Agreement.

Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Nonqualified Stock Options. If and to the extent any Option granted under the Plan intended to qualify as an ISO does not qualify as an ISO, such Option shall constitute a separate NQSO. A grant of an ISO can only be made to an Eligible Recipient who is also an employee within the meaning of Section 422(a)(2) of the Code.

Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable:

(a) **Option Exercise Price.** The Exercise Price of Shares issuable with respect to an Option shall be determined by the Administrator in its sole discretion, provided, however, that such Exercise Price shall not be less than 100% of the Fair Market Value on the Grant Date, except in the case of Substitute Awards. If a Participant owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any subsidiary and an ISO is granted to such Participant, the Exercise Price of such ISO shall be no less than 110% of the Fair Market Value on the Grant Date of such Option.

(b) Option Term. The term of each Option shall be fixed by the Administrator, but no Option shall be exercisable more than 10 years after the Grant Date of such Option; provided, however, that if an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any subsidiary and an ISO is granted to such employee, the term of such ISO (to the extent required by the Code at the time of grant) shall be no more than five years from the Grant Date.

(c) Exercisability. Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator at the time of

grant. Specifically, such terms and conditions may include (i) the attainment of one or more Performance Goals established by the Administrator, (ii) the Participant's continued employment with the Company or any subsidiary, or continued service as a director, consultant or advisor of the Company or any subsidiary, for a specified period of time, (iii) the occurrence of any other event or the satisfaction of any other condition specified by the Administrator in its sole discretion, or

(i) a combination of any of the foregoing. The Administrator may provide that any Option shall be exercisable only in installments, and the Administrator may waive such installment exercise provisions at any time, in whole or in part, based on such factors as the Administrator may determine, all in its sole discretion. An Option designated as an Incentive Stock Option shall cease to qualify for favorable tax treatment as an Incentive Stock Option to the extent it is exercised (if permitted by the terms of the Option) (1) more than three months after the date of a Participant's termination of employment if termination was for reasons other than death or disability, (2) more than one year after the date of a Participant's termination of employment if termination was by reason of death or disability, or (3) more than six months following the first day of a Participant's leave of absence that exceeds three months, unless the Participant's reemployment rights are guaranteed by statute or contract.

(d) Method of Exercise. Subject to Sections 6(c) and 9 of the Plan, vested Options may be exercised in whole or in part at any time during the Option term, by giving notice as described in the applicable Award Agreement. As determined by the Administrator in its sole discretion, payment in whole or in part may also be made: (i) to the extent permitted by applicable law, by means of any cashless exercise procedure approved by the Administrator, including by means of a net exercise whereby the Company issues Shares reduced by the number of Shares needed to satisfy the Exercise Price and/or the Participant's tax withholding obligations; (ii) in the form of unrestricted shares of Common Stock already owned by the Participant (based on the Fair Market Value on the date the Option is exercised); provided, however, that in the case of an ISO, the right to make payment in the form of already owned shares of Common Stock may be authorized only at the time of grant; (iii) any other form of consideration approved by the Administrator and permitted by applicable law; or (iv) any combination of the foregoing. A Participant shall generally have the rights to dividends and any other rights of a shareholder with respect to the Shares subject to the Option only after the Participant has given written notice of exercise, has paid in full for such Shares, and, if requested, has given the representation described in paragraph (b) of Section 13 of the Plan.

(e) Non-Transferability of Options. Except as otherwise provided in the Award Agreement and subject to Section 9 of the Plan, Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will, or by the laws of descent and distribution, except that NQSOs may be transferred if and to the extent set forth in an Award Agreement.

(f) Annual Limit on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the Grant Date of the ISO) of Shares with respect to which ISOs granted to a Participant under this Plan and all other equity compensation plans of the Company or any subsidiary become exercisable for the first time by the Participant during any calendar year exceeds \$100,000 (as determined in accordance with Section 422(d) of the Code), the number of Shares attributable to the amount of such Fair Market Value exceeding \$100,000

shall be treated as issuable with respect to NQSOs. The maximum aggregate number of shares of Stock that may be subject to ISOs that may be granted under the Plan shall be 30,000 shares.

(g) Taxation of Incentive Stock Options.

(i) In order to obtain certain tax benefits afforded to Incentive Stock Options under Section 422 of the Code, the Participant must hold the shares acquired upon the exercise of an Incentive Stock Option for two years after the Grant Date and one year after the date of exercise.

(ii) A Participant may be subject to the alternative minimum tax at the time of exercise of an Incentive Stock Option. The Participant shall give the Company prompt notice of any disposition of shares acquired on the exercise of an Incentive Stock Option prior to the expiration of such holding periods described in

(i) above.

(h) Certain Successor Options. To the extent not inconsistent with the terms, limitations and conditions of Section 422 of the Code and any regulations promulgated with respect thereto, an Option issued in respect of an option held by an employee to acquire stock of any entity acquired, by merger or otherwise, by the Company (or any subsidiary of the Company) may contain terms that differ from those stated in this Section 6, but solely to the extent necessary to preserve for any such employee the rights and benefits contained in such predecessor option, or to satisfy the requirements of Section 424(a) of the Code.

(i) Code Definitions. For purposes of this Section 6, "disability," "parent corporation" and "subsidiary corporation" shall have the meanings attributed to those terms for purposes of Section 422 of the Code.

(j) Non-Exempt Employees. No Option, whether or not vested, granted to an Participant who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable for any shares of Common Stock until at least six months following the date of grant of the Option. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Participant's death or Disability, (ii) upon a corporate transaction as described in Section 4 in which such Option is not assumed, continued, or substituted, or (iii) upon a Change in Control, any such vested Options may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option will be exempt from his or her regular rate of pay.

Section 7. Restricted Stock; Restricted Stock Units.

(a) General. Awards of Restricted Stock and Restricted Stock Units may be granted either alone or in addition to other Awards granted under the Plan. The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, awards of Restricted Stock or Restricted Stock Units shall be made; the number of Shares to be awarded with respect to an Award of Restricted Stock or Restricted Stock Units; and the Restricted Period (as defined in Section 7(c) of this Plan) applicable to an Award of Restricted Stock or Restricted Stock Units. Award Agreements with respect to Restricted Stock or Restricted Stock Units shall be in such form as the Administrator may from time to time approve, and the provisions of

Awards of Restricted Stock or Restricted Stock Units need not be the same with respect to each Participant. An Award of Restricted Stock or Restricted Stock Units shall be subject to such terms and conditions not inconsistent with the Plan as the Administrator shall impose and shall be evidenced by an Award Agreement.

(b) Stock Certificates. Subject to Section 7(c) below, with respect to each Participant who is granted an Award of Restricted Stock, the Company shall either (i) issue a stock certificate in respect of such Award of Restricted Stock, which certificate shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award of Restricted Stock, or (ii) enter such Award of Restricted Stock in book entry form (with appropriate restrictions noted with respect thereto), such method to be determined by the Administrator in its sole discretion. The Company may require that any stock certificates evidencing Restricted Stock granted under the Plan be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Award of Restricted Stock, the Participant shall have delivered a stock power, endorsed in blank, relating to the Shares covered by such Award of Restricted Stock.

(c) Restrictions and Conditions Applicable to Restricted Stock. An Award of Restricted Stock granted pursuant to this Section 7 shall be subject to the following restrictions and conditions:

(i) Subject to the provisions of the Plan and the Award Agreement governing any such Award of Restricted Stock, during such period as may be set by the Administrator commencing on the date of grant of the Award, the Participant shall not be permitted to sell, transfer, pledge, or assign such Shares of Restricted Stock (such period, the "Restricted Period"); provided, however, that the Administrator may, in its sole discretion, provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part based on such factors and such circumstances as the Administrator may determine, in its sole discretion. Notwithstanding the preceding provision of this section, the Administrator may not take any action described in this section if such action shall cause any Award hereunder which is or becomes subject to Section 409A of the Code to fail to comply with the requirements of Section 409A of the Code. Such restrictions shall be determined by the Administrator in its sole discretion, and the Administrator may provide that such restrictions lapse upon (1) the attainment of one or more Performance Goals established by the Administrator, (2) the Participant's continued employment with the Company or any subsidiary, or continued service as a director, consultant or advisor of the Company or any subsidiary, for a specified period of time, (3) the occurrence of any other event or the satisfaction of any other condition specified by the Administrator in its sole discretion, or (4) a combination of any of the foregoing.

(ii) Subject to paragraph (b) of Section 12 of the Plan and/or unless otherwise provided in an Award Agreement, a Participant awarded Restricted Stock under the Plan generally shall have the rights of a shareholder of the Company with respect to such Restricted Stock during the Restricted Period (including, without limitation, the right to vote the Restricted Stock and to receive dividends thereon).

(iii) If a Participant makes an election pursuant to Section 83(b) of the Code, the Participant shall be required to file promptly a copy of such election form with the Company.

(d) **Terms and Conditions for Restricted Stock Units.** The Administrator shall, prior to or at the time of grant, condition the vesting of Restricted Stock Units upon the (i) continued service of the applicable Participant, (ii) the attainment of Performance Goals, or (iii) the attainment of Performance Goals and the continued service of the applicable Participant. The conditions for grant or vesting and the other provisions of Restricted Stock Units (including without limitation any applicable Performance Goals) need not be the same with respect to each Participant. An Award of Restricted Stock Units shall be settled as and when the Restricted Stock Units vest, or, after consultation with Company legal counsel, at a later time specified by the Administrator in the applicable Agreement. In addition, subject to the provisions of this Plan and the applicable Agreement, during the restriction period, if any, set by the Administrator, the Participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber Restricted Stock Units. A Participant shall have no voting or dividend rights with respect to any Restricted Stock Units granted hereunder.

Section 8. Stock or Other Stock-Based Awards. The Administrator is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that are

payable in, valued in whole or in part by reference to, or otherwise based on or related to Shares, as deemed by the Administrator to be consistent with the purposes of the Plan, including without limitation Shares awarded purely as a "bonus" and not subject to any restrictions or conditions, stock appreciation rights, performance awards, performance units, phantom stock, dividend equivalents or similar rights to purchase or acquire Shares, convertible or exchangeable debt securities, other rights convertible or exchangeable into Shares, and Awards valued by reference to book value of Shares or the value of securities of or the performance of specified Parents or Subsidiaries. The Administrator shall determine the terms and conditions of such Awards. The maximum value of cash-settled awards that may be paid or payable in any calendar year to any one Participant shall be \$50,000.

Section 9. Termination of Employment or Service.

Unless otherwise set forth in Section 13 of the Plan and subject to Section 10 below, or as may otherwise be set forth in an Award Agreement, if a Participant's employment with or service as an officer, director, employee, consultant, or advisor of the Company or of any subsidiary: (a) terminates for any reason and on the date of termination of employment or service the Participant is not vested as to his or her entire Award, the Shares issuable with respect to the unvested portion of such Award shall be forfeited; and (b) terminates for the reasons described below and on the date of termination of employment or service the Participant is vested as to any Options, then if such termination is (i) by reason of his or her death or Permanent and Total Disability, any vested Option may thereafter be exercised for a period of twelve months following termination of employment or service; (ii) for Cause, then any vested Option shall cease to be exercisable and shall terminate; or (iii) for any other reason than listed in subsections (b)(i) and (b)(ii) above, then any vested Option may thereafter be exercised for a period of three months following termination of

employment or service. If, and to the extent that, after termination of employment or service, the Participant does not exercise his or her Option within the applicable time stated above, the unexercised Option shall terminate.

Section 10. Change in Control.

Unless otherwise determined in an Award Agreement, in the event of a Change in Control:

(a) Effective immediately prior to the occurrence of the Change in Control, (i) each outstanding Award shall become fully vested and, if applicable, exercisable, (ii) the restrictions and forfeiture conditions applicable to any such Award granted shall lapse, and (iii) any performance conditions imposed with respect to Awards shall be deemed to be fully achieved.

(b) The Administrator may notify all Participants that all outstanding Awards shall be assumed by the acquiring entity or substituted on an equitable basis with awards issued by the acquiring entity. For purposes of this Section 10, an Award shall be considered assumed or substituted for if, following the Change in Control, the Award remains subject to the same terms and conditions that were applicable to the Award immediately prior to the Change in Control except that, if the Award related to Shares, the Award instead confers the right to receive common stock or other securities of the acquiring entity.

(c) Notwithstanding any other provision of the Plan, in the event of a Change in Control, except as would otherwise result in adverse tax consequences under Section 409A of the Code, the Board may, in its sole discretion, provide that each Award shall, immediately upon the occurrence of a Change in Control, be cancelled in exchange for a payment in cash or securities in an amount equal to (i) the excess (if any) of the consideration paid per Share in the Change in Control (as determined by the Administrator in its sole discretion) over the exercise or purchase price (if any) per Share subject to the Award multiplied by (ii) the number of Shares subject to the Award (if the consideration paid per share in the Change in Control is deemed by the Administrator to be less than the Exercise Price or purchase price (if any) per Share subject to an Award, then such Awards may be deemed to have been paid in full and canceled by the Administrator).

Section 11. Amendment and Termination.

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration, or discontinuation that would materially impair the rights of a Participant under any Award granted or Award Agreement in effect under the Plan shall be made without such Participant's consent. The Administrator may accept surrender of outstanding Awards and grant new Awards in substitution for them; provided, that the Administrator will not, without prior shareholder approval, exchange underwater Options or otherwise modify the exercise price or purchase price of any Option or Award that has the effect of being a repricing. To the extent necessary and desirable, approval of the Company's shareholders shall be obtained for any amendment that would:

- (a) increase the total number of Shares reserved for issuance under the Plan; or
- (b) change the class of officers, directors, employees, consultants, and advisors eligible to participate in the Plan.

The Administrator may amend the terms of any Award granted under the Plan, prospectively or retroactively, but, subject to Section 4 of the Plan, no such amendment shall impair the rights of any Participant without his or her consent. Notwithstanding the previous sentence, the Administrator reserves the right to amend the terms of any Award or Award

Agreement as may be necessary or appropriate to avoid adverse tax consequences under Section 409A of the Code, to comply with any requirements under the forfeiture provisions set forth in Section 3(j) of the Plan, to comply with the requirements in the Company's "clawback" policy regarding incentive compensation, or to comply with such "clawback" requirements under the Sarbanes-Oxley Act of 2002 or the Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended from time to time, or to maintain the qualified status of any ISO.

Section 12. Unfunded Status of Plan.

The Plan is intended to constitute an "unfunded" plan. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Company.

Section 13. General Provisions.

(a) Shares shall not be issued pursuant to the exercise or settlement of any Award granted under the Plan unless the exercise or settlement of such Award and the issuance and delivery of such Shares pursuant to such Award shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, the Securities Exchange Act of 1934, withholding tax requirements and the requirements of any stock exchange upon which the Common Stock may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Company may rely on an opinion of its counsel as to such compliance. Any share certificate issued to evidence Common Stock for which an Award is exercised or issued may bear such legends and statements as the Administrator may deem advisable to assure compliance with Federal and state laws and regulations.

(b) The Administrator may require each person acquiring Shares granted under the Plan to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to distribution thereof. All certificates for Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Administrator may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable Federal or state securities law. The certificates for such Shares may include the legend set forth below, or any other legend that the Administrator deems appropriate to reflect any restrictions on transfer for such Shares.

"THE ISSUANCE OF THE SHARES REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THE SHARES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF EITHER AN EFFECTIVE REGISTRATION STATEMENT FOR THESE SHARES UNDER THE SECURITIES ACT OF 1933 OR AN OPINION OF COUNSEL THAT REGISTRATION IS NOT REQUIRED UNDER THE ACT."

(c) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements. The adoption of the Plan or granting of an Award shall not confer upon any Eligible Recipient any right to continued employment with or service to the Company or any subsidiary, as the case may be, nor shall it interfere in any way with the right of

the Company or any subsidiary to terminate the employment or service of any Eligible Recipient at any time.

(d) Unless otherwise set forth in an applicable Award Agreement, a Participant may elect, no later than the date as of which the value of an Award becomes includable in the gross income of the Participant for Federal income tax purposes (the "withholding date"), to have the Company withhold vested whole shares of Common Stock deliverable upon the exercise of an Option or the vesting of the Restricted Stock or Restricted Stock Units to satisfy (in whole or in part) the amount, if any, that the Company or any subsidiary is required to withhold for taxes; provided, however, that the amount of shares of Common Stock so withheld shall have a Fair Market Value (as of the withholding date) that is not in excess of the amount determined by the Company to be equal to the applicable minimum statutorily required withholding tax payments. Any such election shall be irrevocable.

To the extent that a Participant does not make such an election, or such election does not fully satisfy such minimum statutorily required withholding tax payments, then (x) the Company may require that the Participant pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld with respect to such Award, as a condition of the exercise of any Option, (y) the Company may withhold vested whole shares of Common Stock deliverable upon exercise of an Option or vesting of the Restricted Stock or Restricted Stock Units to satisfy (in whole or in part) the amount, if any, that the Company or any subsidiary is required to withhold for taxes; provided, however, that the amount of shares of Common Stock so withheld shall have a Fair Market Value (as of the withholding date) that is not in excess of the amount determined by the Company to be equal to the applicable minimum statutorily required withholding tax payments, and (z) the Company shall have the right to deduct from any payment of any kind otherwise due to a Participant up to an amount equal to any federal, state or local taxes of any kind required by law to be withheld in connection with the granting, vesting or exercise of an Award (not to exceed the amount determined by the Company to be the applicable minimum statutorily required withholding tax

payments). Upon request, the Participant shall reimburse the Company for any taxes that the Company withholds that are not otherwise reimbursed as contemplated above in this Section 13(d).

(e) No member of the Board or the Administrator, nor any officer or employee of the Company acting on behalf of the Board or the Administrator, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Administrator and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.

(f) If a Participant is an officer or director of the Company within the meaning of Section 16, Awards granted hereunder shall be subject to all conditions required under Rule 16b-3, or any successor rule(s) promulgated under the Securities Exchange Act of 1934, to qualify the Award for any exemption from the provisions of Section 16 available under such Rule. Such conditions are hereby incorporated herein by reference and shall be set forth in the agreement with the Participant, which describes the Award.

(g) The Company shall be under no obligation to effect the registration pursuant to the Securities Act of 1933 of any shares of Stock to be issued hereunder or to effect

similar compliance under any state laws. Notwithstanding anything herein to the contrary, the Company shall not be obligated to cause to be issued or delivered any shares of Stock pursuant to the Plan unless and until the Company is advised by its counsel that the issuance and delivery of such shares is in compliance with all applicable laws, regulations or governmental authority and the requirements of any securities exchange on which shares of Stock are traded or any over-the- counter market on which the Stock is quoted. The Administrator may require, as a condition of the issuance and delivery of shares of Stock pursuant to the terms hereof, that the recipient of such shares make such covenants, agreements and representations, and that such shares, if certificated, bear such legends, and if dematerialized, be so restricted, in each case, as the Administrator, in its sole discretion, deems necessary or desirable.

Section 14. Section 409A of the Code.

Notwithstanding any provision in the Plan to the contrary, no payment or distribution under this Plan that constitutes an item of deferred compensation under Section 409A of the Code and becomes payable by reason of a Participant's termination of employment or service with the Company will be made to such Participant unless such Participant's termination of employment or service constitutes a "separation from service" (as defined in Section 409A of the Code). For purposes of this Plan, each amount to be paid or benefit to be provided shall be construed as a separate identified payment for purposes of Section 409A of the Code. If a participant is a "specified employee" (as defined in Section 409A of the Code), then to the extent necessary to avoid the imposition of taxes under Section 409A of the Code, such Participant shall not be entitled to any payments which are deferred compensation under Section 409A of the Code upon a termination of his or her employment or service until the earlier of: (i) the expiration of the six-month period measured from the date of such Participant's "separation from service" or (ii) the date of such Participant's death. Upon the expiration of the applicable waiting period set forth in the preceding sentence, all payments and benefits deferred pursuant to this Section 14 (whether they would have otherwise been payable in a single lump sum or in installments in the absence of such deferral) shall be paid to such Participant in a lump sum as soon as practicable, but in no event later than 60 calendar days, following such expired period, and any remaining payments due under this Plan will be paid in accordance with the normal payment dates specified for them herein.

Section 15. Notice.

All notices, requests, waivers, and other communications required or permitted hereunder shall in writing and shall be either personally delivered, sent by reputable overnight courier service or mailed by first class mail, return receipt requested, or by email or other form of electronic transmission, each against receipt therefore, to the recipient at the address below:

BayFirst Financial Corp.

700 Central Avenue, Suite 102 St. Petersburg, FL 33701

Attention: Compensation Committee Chairman

or such other address or the attention of such other person as the recipient party shall have specified by prior written notice to the sending party, or sent by other electronic means. All such notices, requests, waivers and other communications shall be deemed to have been effectively given: (a) when personally delivered to the party to be notified; (b) when sent by confirmed

facsimile, email or other form of electronic transmission to the party to be notified; (c) five (5) business days after deposit in the United States Mail postage prepared by certified or registered mail with return receipt requested at any time other than during a general discontinuance of postal service due to strike, lockout, or otherwise (in which case such notice, request, waiver or other communication shall be effectively given upon receipt) and addressed to the party to be notified as set forth above; or (d) two (2) business days after deposit with a national overnight delivery service, postage prepaid, addressed to the party to be notified as set forth above with next-business-day delivery guaranteed. A party may change its or his notice address given above by giving the other party ten (10) days' written notice of the new address in the manner set forth above.

Section 16. Governing Law and Interpretation.

The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Florida, without reference to principles of conflict of laws.

Section 17. Severability.

If, for any reason, any provision of this Plan is held invalid, such invalidity shall not affect any other provision of this Plan not held so invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If any provision of this Plan shall be held invalid in part, such invalidity shall in no way affect the rest of such provision not held so invalid, and the rest of such provision, together with all other provisions of this Plan, shall to the full extent consistent with law continue in full force and effect.

Section 18. Term of Plan.

The Plan shall be effective as of the Effective Date. No Award shall be granted pursuant to the Plan on or after the tenth anniversary of the Effective Date, but Awards granted under the Plan prior to the tenth anniversary of the Effective Date may extend beyond the tenth anniversary of the Effective Date pursuant to the terms of the Award as provided for under the Plan and the terms of the applicable Award Agreement.

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* * * * *

IN WITNESS WHEREOF, the Board of Directors of the Company has adopted this Plan, to be executed on behalf of the Company by a duly designated officer of the Company.

BAYFIRST FINANCIAL CORP.

By: /s/Anthony N. Leo
Name: Anthony N. Leo
Title: Chief Executive Officer

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Appendix A

Participating Employers

BayFirst Financial Corp. BayFirst National Bank

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BAYFIRST FINANCIAL CORP. 2017 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

THIS STOCK OPTION AGREEMENT (this "Agreement") is entered into as of this day of _____, between BayFirst Financial Corp., a Florida corporation (the "Company"), and _____ (the "Optionee").

WHEREAS, on February 2, 2017, the Board of Directors of the Company adopted the "BayFirst Financial Corp. 2017 Equity Incentive Plan" (the "Plan"), and recommended that the Plan be approved by the Company's shareholders; and

WHEREAS, on _____, the Company's shareholders approved the Plan at an annual meeting held on _____; and

WHEREAS, the Committee has granted the Optionee a stock option to purchase the number of shares of the Company's common stock as set forth below, and in consideration of the granting of that stock option the Optionee intends to remain in the employ of the Company; and

WHEREAS, the Company considers it desirable and in its best interest that the Optionee be provided an inducement to acquire an ownership interest in the Company and an additional incentive to advance the interest of the Company through the grant of an option to purchase shares of common stock of the Company pursuant to the Plan; and

WHEREAS, the Company and the Optionee desire to enter into a written agreement with respect to such option in accordance with the Plan.

NOW, THEREFORE, as an employment incentive and to encourage stock ownership, and also in consideration of the mutual covenants contained herein, the Company and the Optionee agree as follows.

1. Incorporation of Plan. This option is granted pursuant to the provisions of the Plan and the terms and definitions of the Plan are incorporated herein by reference and made a part hereof. A copy of the Plan has been delivered to, and receipt is hereby acknowledged by, the Optionee.

2. Grant of Option. Subject to the provisions stated in this Agreement, the Company hereby evidences its grant to the Optionee, not in lieu of salary or other compensation, of the right and option (the "Option") to purchase the number of shares of the Company's common stock, par value \$1.00 per share (the "Common Stock"), set forth below, exercisable in the amounts and at the time specified below. This Option is intended to be an.

Date of Grant: _____

Number of Shares: _____

Exercise Price: _____

Option Vesting Schedule: Options are exercisable with respect to the shares of Common Stock as follows, subject in each case to continued employment by the Company or a subsidiary of the Company through such date, and subject to the provisions of Section 7 of this Agreement:

No. of Shares	Vesting Date

In addition, the Options granted will not vest until [insert performance vesting condition, if applicable].

[Include, if applicable: In addition, [vesting schedule and terms as determined by the Company] upon your attainment of Normal Retirement Age. Normal Retirement Age shall be [].]

Option Exercise Period: All options expire and are void unless exercised on or before _____.

3. **Exercise Terms.** The Optionee must exercise the Option for at least the lesser of 100 shares or the number of shares of Stock as to which the Option remains unexercised but exercisable. If this Option is not exercised with respect to all or any part of the shares subject to this Option prior to its expiration, the shares with respect to which this Option was not exercised shall no longer be subject to this Option.

4. **Restrictions on Transferability.** No Option shall be transferable by an Optionee other than by will or the laws of descent and distribution or pursuant to a Qualified Domestic Relations Order. During the lifetime of an Optionee, Options shall be exercisable only by such Optionee (or by such Optionee's guardian or legal representative, should one be appointed). If the shares purchased pursuant to the exercise of an Incentive Stock Option are transferred by the Optionee, except pursuant to the Optionee's will or the laws of descent and distribution, prior to such date which is the later of two years after the grant of such Incentive Stock Option or one year after the transfer of the shares to the Optionee pursuant to the exercise of such Incentive Stock Option, the transfer is a "disqualifying disposition" for tax purposes and the Optionee shall report such transfer to the Company.

5. **Notice of Exercise of Option.** This Option may be exercised by the Optionee, or by the Optionee's administrators, executors or personal representatives, by a written notice (in substantially the form of a Notice of Exercise approved by the Company) signed by the Optionee, or by such administrators, executors or personal representatives, and delivered or mailed to the Company as specified in this Agreement to the attention of the _____ or such other officer as the Company may designate. Any such notice shall (a) specify the number of shares of Common Stock which the Optionee or the Optionee's administrators, executors or

personal representatives, as the case may be, then elects to purchase hereunder, (b) contain such information as may be reasonably required by the Company pursuant to this Agreement, and (c) be accompanied by (i) consideration in the form of any cashless exercise (such consideration having been approved by the Administrator upon the granting of this Option), including by means of a net exercise whereby the Company issues net Shares and the remaining balance of the Shares to satisfy the Participant's tax withholding obligations; (ii) unrestricted shares of Common Stock already owned by the Participant (based on the Fair Market Value on the date the Option is exercised); (iii) any other form of consideration subsequently approved by the Administrator and permitted by applicable law; or (iv) a combination of a certified or cashier's check accompanied by a number of shares of stock which equal under (i), (ii) or (iii) the total Exercise Price applicable to such shares purchased hereunder. Upon receipt of any such notice and accompanying payment, and subject to the terms hereof, the Company agrees to issue to the Optionee or the Optionee's administrators, executors or personal representatives, as the case may be, stock certificates for the number of shares specified in such notice registered in the name of the person exercising this Option.

6. **Adjustment in Option.** The number of Shares subject to this Option, the Exercise Price, and other matters are subject to adjustment during the term of this Option in accordance with Sections 4, 6, 9, 10, 11 and 14 of the Plan. In the event of a Change of Control, (i) this Option will automatically vest in full and (ii) any performance conditions imposed with respect to this Option shall be deemed to be fully achieved immediately prior to the consummation of the Change of Control.

7. **Termination of Employment.**

a. In the event of the termination of the Optionee's employment [Include, if applicable: (including due to retirement)] with the Company or any of its Subsidiaries, other than a termination that is either (i) for Cause, or (ii) for reasons of death or Permanent and Total Disability, all vesting of the Option shall cease and the Optionee may exercise the vested portion of the Option at any time within a period ending on the earlier of (a) the last day of the period ending 90 days after such termination of employment or (b) the expiration date of this Option, to the extent of the number of shares which were vested but not exercised or otherwise forfeited as of the date of such termination (and thereafter this Option shall be deemed terminated and shall not be or become exercisable).

b. In the event of a termination of the Optionee's employment for Cause, this Option, to the extent not previously exercised, shall terminate immediately and shall not thereafter be or become exercisable.

c. In the event of termination of employment because of the Optionee's Permanent and Total Disability, all vesting of the Option shall cease and the Optionee (or his or her personal representative) may exercise the vested portion of the Option, within a period ending on the earlier of (a) the last day of the one-year period following the Optionee's Permanent and Total Disability or (b) the expiration date of this Option, to the extent of the number of shares which were vested but not exercised or otherwise forfeited as of the date of such termination.

d. In the event of the Optionee's death while employed by the Company or any of its Subsidiaries or within 90 days after a termination of such employment (if such termination was not for Cause), the appropriate persons described in Section 5 hereof or persons to whom all or a portion of this Option is transferred in accordance with Section 4 hereof may exercise this Option, to the extent vested, at any time within a period ending on the earlier of (a) the last day of the twelve month period following the Optionee's death or (b) the expiration date of this Option. If the Optionee was an employee of the Company at the time of death, all vesting of the Option shall cease as of the date of death, and this Option may be so exercised to the extent of the number of shares that were vested but not exercised or otherwise forfeited as of the date of death. If the Optionee's employment terminated prior to his or her death, all vesting of the Option shall have ceased as of the date of termination, and this Option may be exercised only to the extent of the number of shares covered by this Option which were vested but not exercised or otherwise forfeited as of the date of such termination.

e. This Option does not confer upon the Optionee any right with respect to continuance of employment by the Company or by any of its Subsidiaries. This Option shall not be affected by any change of employment so long as the Optionee continues to be an employee of the Company or one of its Subsidiaries.

8. Compliance with Regulatory Matters. The Optionee acknowledges that the issuance of capital stock of the Company is subject to limitations imposed by federal and state law and the Optionee hereby agrees that the Company shall not be obligated to issue any shares of Stock upon exercise of this Option that would cause the Company to violate law or any rule, regulation, order or consent decree of any regulatory authority (including without limitation the Securities and Exchange Commission) having jurisdiction over the affairs of the Company. The Optionee agrees that he or she will provide the Company with such information as is reasonably requested by the Company or its counsel to determine whether the issuance of Stock complies with the provisions described by this Section 8.

9. Miscellaneous.

a. This Agreement shall be binding upon the parties hereto and their representatives, successors and assigns.

b. Unless the context clearly indicates to the contrary, all capitalized terms used herein shall have the meanings as set forth in this Agreement, or in the event a capitalized term is not clearly described in this Agreement, the meanings as set forth in the Plan.

c. This Agreement is executed and delivered in, and shall be governed by the laws of, the State of Florida.

d. Income realized by the Optionee pursuant to this Agreement shall not be included in the Grantee's earnings for the purpose of any benefit plan of the entity in which the Optionee may be enrolled or for which the Optionee may become eligible unless otherwise specifically provided for in such plan.

e. Any requests or notices to be given hereunder shall be deemed given, and any elections or exercises to be made or accomplished shall be deemed made or accomplished, (i) upon actual delivery thereof to the designated recipient, (ii) when sent by confirmed facsimile or by email or other form of electronic transmission, each against receipt therefore, to the party to be notified, or (iii) three days after deposit thereof in the United States mail, registered, return receipt requested and postage prepaid, addressed, if to the Optionee, at the address set forth below and, if to the Company, to the executive offices of the Company at 700 Central Avenue, Suite 102, St. Petersburg, FL 33701, Attn: Chairperson of the Compensation Committee.

f. This Agreement may not be modified except in writing executed by each of the parties hereto. Notwithstanding the previous sentence, the Administrator reserves the right to amend the terms of this Agreement as may be necessary or appropriate to avoid adverse tax consequences under Section 409A of the Code or to comply with any requirements under the Company's "clawback" policy regarding incentive compensation, or such "clawback" requirements under the Sarbanes-Oxley Act of 2002 or the Dodd-Frank Wall Street Reform and Consumer Protection Act.

[Signatures appear on the following page.]

IN WITNESS WHEREOF, the Board of Directors of the Company has caused this Stock Option Agreement to be executed on behalf of the Company and the Company's seal to be affixed hereto and attested by the Secretary or an Assistant Secretary of the Company, and the Optionee has executed this Stock Option Agreement under seal, all as of the day and year first above written.

BAYFIRST FINANCIAL CORP.

By: _____

Name: _____

Title: _____

OPTIONEE

By: _____

Name: _____

Address: _____

Attachments:

1. 2017 Equity Incentive Plan

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BAYFIRST FINANCIAL CORP.
2017 EQUITY INCENTIVE PLAN

Restricted Stock Award Grant Notice

Participant Name: _____

Company: BayFirst Financial Corp.

A summary of the terms of your grant of Restricted Shares is set out in this notice (the "Grant Notice") but subject always to the terms of the BayFirst Financial Corp. 2017 Equity Incentive Plan (the "Plan") and the Restricted Stock Award Agreement (the "Award Agreement"). In the event of any inconsistency between the terms of this Grant Notice, the terms of the Plan and the Award Agreement, the terms of the Plan and the Award Agreement shall prevail.

Notice:

Type of Award: Restricted Stock Award

Stock: Shares of common stock, par value \$1.00 per share, of the Company

Number of Shares of Stock Subject to

Grant: _____ shares

Grant Date: _____

Restricted Shares granted will vest (i.e., restrictions shall lapse) in accordance with the following schedule, provided that you have provided continuous employment to the Company or any Participating Employer through each such vesting date:

Vesting Schedule:

Date	Date No. of Shares
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

In the event of a Change of Control, all unvested Restricted Shares will automatically vest in full immediately prior to the consummation of the Change of Control.

[Include, if applicable: In addition, [vesting schedule and terms as determined by the Company] upon your attainment of Normal Retirement Age. Normal Retirement Age shall be [].]

Performance Goal:

In addition, the Restricted Shares granted will not vest until [insert performance vesting condition, if applicable].

You acknowledge receipt of, and understand and agree to, this Grant Notice, the Award Agreement and the Plan. You further acknowledge that as of the Grant Date, this Grant Notice, the Award Agreement and the Plan set forth the entire understanding between you and the Company or any Participating Employer regarding the Restricted Shares and supersede all prior oral and written Award Agreements on the subject.

Acceptance:

[Signatures appear on the following page.]

IN WITNESS WHEREOF, the Company and the Participant have duly executed and delivered this Grant Notice as of the Grant Date.

BayFirst financial Corp. PARTICIPANT

By: _____

Print Name: _____ [Name]

Title: _____ Address: _____

Attachments:

1. Restricted Stock Award Agreement
2. 2017 Equity Incentive Plan

BAYFIRST FINANCIAL CORP.

Restricted Stock Award Agreement

Pursuant to the Restricted Stock Grant Notice (the "Grant Notice") and this Restricted Stock Award Agreement (this "Award Agreement"), BayFirst Financial Corp. (the "Company") has granted the Participant, as identified in the Grant Notice, the number of restricted shares of the Company's Common Stock under the Company's 2017 Equity Incentive Plan (the "Plan") indicated in the Grant Notice (the "Restricted Shares"). Capitalized terms not defined in this Award Agreement but defined in the Plan or the Grant Notice will have the same definitions as in the Plan or the Grant Notice, respectively.

1. **Restrictions and Vesting Schedule.** The Restricted Shares are being awarded to Participant subject to the transfer and forfeiture conditions set forth in this Award Agreement and the Plan (the "Restrictions"). Subject to the provisions of Section 2 below, the Restricted Shares will vest, and Restrictions shall lapse, as provided in the Participant's Grant Notice. The period from the Date of Grant through the last Vesting Date set forth in the Grant Notice is referred to as the "Restriction Period." Except to the extent vesting accelerates pursuant to the terms of the Grant Notice or Section 2 below, any unvested Restricted Shares shall be automatically forfeited upon Participant's Termination from Service.

2. **Acceleration of Vesting upon a Change in Control.** In the event of a Change of Control, all unvested Restricted Shares will automatically vest in full immediately prior to the consummation of the Change of Control.

3. **Assignment or Transfer of Shares.** Unless otherwise provided by the Board, prior to the vesting of the Restricted Shares, Participant may not directly or indirectly, by operation of law or otherwise, voluntarily or involuntarily, sell, assign, pledge, encumber, charge or otherwise transfer any of the Restricted Shares still subject to Restrictions. The Restricted Shares shall be forfeited if Participant violates or attempts to violate these transfer Restrictions. After any Stock has been released from the Restrictions, Participant shall not directly or indirectly, by operation of law or otherwise, voluntarily or involuntarily, sell, assign, pledge, encumber, charge or otherwise transfer any interest in the Stock except in compliance with the provisions herein and the provisions of applicable securities laws.

4. **Delivery of Shares.** The Company shall enter such Award of Restricted Stock in book entry form with appropriate restrictions noted with respect thereto.

5. **Rights of Participant.** Subject to the provisions of this Award Agreement, Participant shall exercise all rights and privileges of a shareholder of the Company with respect to the Restricted Shares deposited pursuant to Section 4. Participant shall be deemed to be the holder for purposes of receiving any dividends that may be paid with respect to such shares of Stock and for the purpose of exercising any voting rights relating to such shares of Stock, even if some or all of such shares of Stock have not yet vested and been released from the Restrictions.

6. **Restrictive Legends.** The Company's book entry notations representing the Stock shall have been noted with a legend in substantially the following form:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS SET FORTH IN A RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR SUCH HOLDER'S PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY. ANY TRANSFER OR ATTEMPTED TRANSFER OF ANY SHARES SUBJECT TO SUCH RESTRICTED STOCK AWARD IS VOID WITHOUT THE PRIOR EXPRESS WRITTEN CONSENT OF THE COMPANY."

The Company shall remove or cause the removal of the foregoing legend as and to the extent of the lapse of the applicable Restrictions.

7. **Section 83(b) Election.** Participant understands that Section 83(a) of the Code taxes as ordinary income the difference between the amounts paid for the Stock and the fair market value of the Stock as of the date any Restrictions on the Stock lapse. Participant understands that Participant may elect to be taxed at the time the Restricted Shares are granted rather than when and as the Restrictions lapse, by filing an election under Section 83(b) ("83(b) Election") of the Code with the Internal Revenue Service within 30 days from the Date of Grant. Even if the fair market value of the Restricted Shares at the time of the Grant equals the amount paid for the Stock, if any, the 83(b) Election must be made to avoid income under Section 83(a) in the future. Participant understands that failure to file such an 83(b) Election in a timely manner may result in adverse tax consequences for Participant. Participant further understands that an additional copy of such 83(b) Election is required to be filed with his or her federal income tax return for the calendar year in which the Grant Date in connection with this Award Agreement falls. **Participant further acknowledges and understands that it is Participant's decision as to whether to file such 83(b) Election, and neither the Company nor the Company's legal or financial advisors shall have any obligation or responsibility with respect to such filing.** Participant acknowledges that the foregoing is only a summary of the effect of United States federal income taxation with respect to purchase of the Stock hereunder, and does not purport to be complete. Participant further acknowledges that the Company has directed Participant to seek independent advice regarding the applicable provisions of the Code, the income tax laws of any municipality, state or foreign country in which Participant may reside, and the tax consequences of Participant's death. Participant assumes all responsibility for filing an 83(b) Election and paying all taxes resulting from such election or the lapse of the Restrictions on the Stock.

8. **Refusal to Transfer.** The Company shall not be required to transfer on its books any shares of Stock of the Company which shall have been transferred in violation of any of the provisions set forth in this Award Agreement.

9. **No Employment Rights.** This Award Agreement is not an employment contract and nothing in this Award Agreement shall confer upon the Participant any right to continued employment with or service to the Company or any Subsidiary, as the case may be, nor shall it interfere in any way with the right of the Company or any Subsidiary to terminate the employment or service of the Participant at any time.

10. **Governing Plan Document.** The Restricted Shares granted hereunder are subject to all the provisions of the Plan, the provisions of which are hereby incorporated by reference herein, and is further subject to all interpretations, amendments, rules and regulations which may from

time to time be promulgated and adopted pursuant to the Plan. Capitalized terms used herein and not defined shall have the meanings assigned in the Plan. In the event of any conflict between the provisions of this Award Agreement and those of the Plan, the provisions of the Plan shall control.

11. **Adjustments.** The Restricted Shares shall be subject to adjustments as provided in Sections 4, 9, 10, 11 and 14 of the Plan.

12. **Acknowledgements.** No waiver of any breach of any provision of this Award Agreement by the Company shall be construed to be a waiver of any succeeding breach or as a modification of such provision.

13. **Miscellaneous.**

a. **Notices.** All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) when personally delivered to the party to be notified; (b) when sent by confirmed facsimile or by email or other form of electronic transmission, each against receipt therefore, to the party to be notified; (c) five business days after deposit in the United States Mail postage prepared by certified or registered mail with return receipt requested at any time other than during a general discontinuance of postal service due to strike, lockout, or otherwise (in which case notice, request, waiver or other communication shall be effectively given upon receipt) and address to the party to be notified as set forth above; or (d) two business days after deposit with a national recognized overnight delivery service, postage prepaid, addressed to the party to be notified as set forth above with next-business-day delivery guaranteed. A party may change its notice address by giving the other party ten days' written of the new address in the manner set forth above.

b. **Successors and Assigns.** This Award Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer herein set forth, be binding upon Participant, Participant's successors, and assigns.

c. **Governing Law.** This Award Agreement shall be governed by and construed in accordance with the laws of the State of Florida, without reference to principles of conflict of laws.

d. **Entire Award Agreement; Amendment.** This Award Agreement, along with the Grant Notice and the Plan constitute the entire Award Agreement between the parties with respect to the subject matter hereof and supersedes and merges all prior agreements or understandings, whether written or oral. This Award Agreement may only be amended as described in Section 11 of the Plan.

ATTACHMENT A
ELECTION UNDER SECTION 83(B)
OF THE INTERNAL REVENUE CODE OF 1986

The undersigned taxpayer hereby elects, pursuant to §83(b) of the Internal Revenue Code, to include in taxpayer's gross income or alternative minimum tax income, as applicable, for the current taxable year, the amount of any income that may be taxable to taxpayer in connection with taxpayer's receipt of the property described below:

1. The taxpayer's name, address and taxpayer identification number are as follows:

Name:

Address:

SS#

2. Description of property with respect to which the election is being made:

shares of Common Stock of BayFirst Financial Corp., a Florida corporation (the "Company"), granted pursuant to a Restricted Stock Award under the Company's 2017 Equity Incentive Plan.

3. The date on which the property was transferred is.

The taxable year for which the election is made is calendar year .

4. ***The property is subject to the following restrictions:***

The Restricted Shares are subject to a vesting schedule pursuant to which restrictions on transfer will lapse.

5. ***The fair market value at time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) of such property is \$_____.***

6. ***Furnishing statement to employer:***

A copy of this statement has been furnished to the Company.

Dated: _____

Taxpayer:

**BAYFIRST FINANCIAL CORP.
2017 EQUITY INCENTIVE PLAN**

Restricted Stock UNIT Award Grant Notice

Participant Name:	_____
Company:	BayFirst Financial Corp.
Notice:	A summary of the terms of your grant of Restricted Stock Unit (RSU) Award is set out in this notice (the "Grant Notice") but subject always to the terms of the BayFirst Financial Corp. 2017 Equity Incentive Plan (the "Plan") and the Restricted Stock Unit Award Agreement (the "Award Agreement"). In the event of any inconsistency between the terms of this Grant Notice, the terms of the Plan and the Award Agreement, the terms of the Plan and the Award Agreement shall prevail.
Type of Award:	Restricted Stock Unit Award (as defined in the Plan and meaning the right granted to the Participant to receive one share of Stock for each RSU at the end of the specified Vesting Period)
Stock:	Shares of voting common stock, par value \$1.00 per share, of the Company.
Number of RSU Units Subject to Grant:	_____
Grant Date:	_____
Vesting Schedule:	Restricted Stock Units (RSUs) granted will vest (i.e., shares will be delivered) in accordance with the following schedule, provided that you have provided continuous employment to the Company or any Participating Employer through each such vesting date, except as otherwise forth below: In the event of a Change of Control after the Date of Grant and prior to the end of the Performance Period, all unvested RSUs will automatically vest in full immediately prior to the consummation of the Change of Control. [Include, if applicable: In addition, [vesting schedule and terms as determined by the Company] upon your attainment of Normal Retirement Age. Normal Retirement Age shall be [].] [Vesting is accelerated to 100% upon the Participant's death or Permanent and Total Disability while a Participant during the Performance Period.] In addition, the RSUs granted will not vest until [insert performance vesting condition, if applicable].
Performance Goal:	
Delivery of Shares:	Upon vesting, the applicable shares of Stock, subject to required tax withholding, shall be transferred by the Company to the Participant's estate within thirty (30) days of the vesting date.
Withholding:	The Company and the Participant will comply with all federal and state laws and regulations respecting the required withholding, deposit and payment of any income, employment or other taxes relating to the Grant. A portion of the Stock subject to each RSU may be withheld to cover required taxes, and the net number of shares of Stock will be paid to the Participant.
Acceptance:	You acknowledge receipt of, and understand and agree to, this Grant Notice, the Award Agreement and the Plan. You further acknowledge that as of the Grant Date, this Grant Notice, the Award Agreement and the Plan set forth the entire understanding between you and the Company or any Participating Employer regarding the RSUs and supersede all prior oral and written Award Agreements on the subject.

[Signatures appear on the following page.]

IN WITNESS WHEREOF, the Company and the Participant have duly executed and delivered this Grant Notice as of the Grant Date.

BAYFIRST FINANCIAL CORP. PARTICIPANT

By: _____

Print Name: _____ [Name]

Title: _____ Address: _____

Attachments:

1. Restricted Stock Unit Award Agreement
2. 2017 Equity Incentive Plan

BayFirst Financial Corp.
Restricted Stock Unit Award Agreement

Pursuant to the Restricted Stock Unit Grant Notice (the "Grant Notice") and this Restricted Stock Unit Award Agreement (this "Award Agreement"), BayFirst Financial Corp. (the "Company") has granted the Participant, as identified in the Grant Notice, the number of restricted stock units under the Company's 2017 Equity Incentive Plan (the "Plan") indicated in the Grant Notice (the "RSUs"). Capitalized terms not defined in this Award Agreement but defined in the Plan or the Grant Notice will have the same definitions as in the Plan or the Grant Notice, respectively.

1. Restrictions and Vesting Schedule. The RSUs are being awarded to Participant subject to the conditions set forth in this Award Agreement and the Plan (the "Restrictions"). Subject to the provisions of Section 2 below, the RSUs will vest as provided in the Participant's Grant Notice. Upon vesting, Participant shall have the right to a number of shares of Common Stock of the Company equal to the number of vested RSUs. Except to the extent vesting accelerates pursuant to the terms of the Grant Notice or Section 2 below, any unvested RSUs shall be automatically forfeited upon Participant's Termination from Service, or if earlier, at the end of the Performance Period.

2. Acceleration of Vesting upon a Change in Control. In the event of a Change of Control prior to _____, all unvested RSUs will automatically vest in full immediately prior to the consummation of the Change of Control.

3. Assignment or Transfer of Shares. Unless otherwise provided by the Board, prior to the vesting of the RSUs, Participant may not directly or indirectly, by operation of law or otherwise, voluntarily or involuntarily, sell, assign, pledge, encumber, charge or otherwise transfer any of the RSUs. The RSUs shall be forfeited if Participant violates or attempts to violate these transfer restrictions. After any Stock has been delivered, Participant shall not directly or indirectly, by operation of law or otherwise, voluntarily or involuntarily, sell, assign, pledge, encumber, charge or otherwise transfer any interest in the Stock except in compliance with the provisions herein and the provisions of applicable securities laws.

4. Delivery of Shares. Upon vesting of an RSU, the Participant is entitled to one share of Company Stock for each vested RSU. Such Stock, subject to applicable withholding, shall be transferred by the Company to the Participant within thirty (30) days of the vesting date and not later than March 15 of the year following the year in which the RSU vests.

5. Payment and Tax Withholding. Each payment of the RSUs shall be made in shares of Stock, determined by the Administrator. The payment of a RSU in the form of a share of Stock shall be based on the Fair Market Value of a share of Stock on the applicable date of vesting to which such tax withholding relates. Upon receipt of any entitlement to shares of Stock under this Agreement, the Participant shall make appropriate arrangements with the Company to provide for the amount of minimum tax withholding required by law, including without limitation Sections 3102 and 3402 or any successor section(s) of the Code and applicable state and local income and other tax laws. The Company may permit the Participant to satisfy any federal, state or local tax withholding obligation by any of the following means, or by a combination of such means: (a) tendering a cash payment; (b) authorizing the Company to withhold shares of Stock

from the shares of Stock otherwise issuable or deliverable to the Participant as a result of the vesting of the RSUs (provided, however, that no shares of Stock shall be withheld with a value exceeding the minimum amount of tax required to be withheld by law); or (c) delivering to the Company previously owned and unencumbered shares of Stock.

6. No Ownership Rights Prior to Issuance of Stock. Neither the Participant nor any other person shall become the beneficial owner of the Stock underlying the RSU, nor have any rights of a shareholder (including, without limitation, dividend and voting rights) with respect to any such Stock, unless and until and after such Stock has been actually issued to the Participant and transferred on the books and records of the Company or its agent in accordance with the terms of the Plan and this Agreement.

7. Refusal to Transfer. The Company shall not be required to transfer on its books any shares of Stock of the Company which shall have been transferred in violation of any of the provisions set forth in this Award Agreement.

8. No Employment Rights. This Award Agreement is not an employment contract and nothing in this Award Agreement shall confer upon the Participant any right to continued employment with or service to the Company or any Subsidiary, as the case may be, nor shall it interfere in any way

with the right of the Company or any Subsidiary to terminate the employment or service of the Participant at any time.

9. **Governing Plan Document.** The RSUs granted hereunder are subject to all the provisions of the Plan, the provisions of which are hereby incorporated by reference herein, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. Capitalized terms used herein and not defined shall have the meanings assigned in the Plan. In the event of any conflict between the provisions of this Award Agreement and those of the Plan, the provisions of the Plan shall control.

10. **Adjustments.** The RSUs shall be subject to adjustments as provided in Sections 4, 7, 9, 10, 11 and 14 of the Plan.

11. **Acknowledgements.** No waiver of any breach of any provision of this Award Agreement by the Company shall be construed to be a waiver of any succeeding breach or as a modification of such provision.

12. **Miscellaneous.**

a. **Notices.** All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) when personally delivered to the party to be notified; (b) when sent by confirmed facsimile or by email or other form of electronic transmission, each against receipt therefore, to the party to be notified; (c) five business days after deposit in the United States Mail postage prepared by certified or registered mail with return receipt requested at any time other than during a general discontinuance of postal service due to strike, lockout, or otherwise (in which case notice, request, waiver or other communication shall be effectively given upon receipt) and address to the party to be notified as set forth

above; or (d) two business days after deposit with a national recognized overnight delivery service, postage prepaid, addressed to the party to be notified as set forth above with next-business-day delivery guaranteed. A party may change its notice address by giving the other party ten days' written of the new address in the manner set forth above.

b. **Registration of Stock.** It is intended that any Stock received in respect of the RSUs shall have been registered under the Securities Act of 1933 ("Securities Act"). If the Participant is an "affiliate" of the Company, as that term is defined in Rule 144 under the Securities Act ("Rule 144"), the Participant may not sell the Stock received except in compliance with Rule 144. Certificates representing Stock issued to an "affiliate" of the Company may bear a legend setting forth such restrictions on the disposition or transfer of the Stock as the Company deems appropriate to comply with Federal and state securities laws. If, at any time, the Stock is not registered under the Securities Act, and/or there is no current prospectus in effect under the Securities Act with respect to the Stock, the Participant shall execute, prior to the delivery of any Stock to the Participant by the Company pursuant to this Agreement, an agreement (in such form as the Company may specify) in which the Participant represents and warrants that the Participant is purchasing or acquiring the Stock acquired under this Agreement for the Participant's own account, for investment only and not with a view to the resale or distribution thereof, and represents and agrees that any subsequent offer for sale or distribution of any kind of such Stock shall be made only pursuant to either (i) a registration statement on an appropriate form under the Securities Act, which registration statement has become effective and is current with regard to the Stock being offered or sold, or (ii) a specific exemption from the registration requirements of the Securities Act, but in claiming such exemption the Participant shall, prior to any offer for sale of such Stock, obtain a prior favorable written opinion, in form and substance satisfactory to the Company, from counsel for or approved by the Company, as to the applicability of such exemption thereto.

c. **Data Protection.** By accepting this Agreement (whether by electronic means or otherwise), the Participant hereby consents to the holding and processing of personal data provided by him/her to the Company for all purposes necessary for the operation of the Plan. These include, but are not limited to, administering and maintaining Participant records, providing information to any registrars, brokers or their party administrators of the Plan, or providing information to future purchasers of the Company or the business in which the Participant works.

d. **Successors and Assigns.** This Award Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer herein set forth, be binding upon Participant, Participant's successors, and assigns.

e. **Governing Law.** This Award Agreement shall be governed by and construed in accordance with the laws of the State of Florida, without reference to principles of conflict of laws.

f. **Entire Award Agreement; Amendment.** This Award Agreement, along with the Grant Notice and the Plan constitute the entire Award Agreement between the parties with respect to the subject matter hereof and supersedes and merges all prior agreements or understandings, whether written or oral. This Award Agreement may only be amended as described in Section 11 of the Plan.

BAYFIRST FINANCIAL CORP.
AMENDED AND RESTATED
DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

General Terms

Introduction

All holders of record of Shares are eligible to participate in the Plan. Beneficial owners of Shares whose shares are registered in names other than their own name may participate by requesting their broker or nominee to transfer their Shares into their own name or requesting that the broker or nominee enroll in the Plan on their behalf. The right to participate in the Plan is not transferable to another person apart from a transfer of a Participant's Shares to such person. Beneficial owners whose Shares are registered in names other than their own (for example, in the name of a broker, bank, or other nominee) and who wish to participate in the optional cash purchase feature of the Plan must become owners of record of at least one Share. The Plan is administered by the Agent.

Purpose

The Plan has been established for the purposes of offering Participants: (i) a convenient method to reinvest cash dividends on Shares; and (ii) an option to purchase additional Shares, both as described below. All such Shares are purchased directly from the Company, or on the open market, by the Agent, which acts as agent for Participants under the Plan.

Defined Terms

Where used in the Plan, the following terms shall have the following meanings, respectively:

"Agent" means Continental Stock Transfer & Trust Company, or such other stock transfer agent as may be appointed by the Board of Directors of the Company from time to time.

"Board of Directors" means the board of directors of the Company.

"Business Day" means any day on which the Agent's principal offices in New York, NY are generally open for the transaction of commercial business but does not, in any event, include a Saturday, Sunday, or any day that is a statutory or municipal holiday in New York, NY.

"Close of Business" means 5:00 p.m. (Eastern time) on a Business Day.

"Company" means BayFirst Financial Corp.

"Dividend Payment Date" means the date determined by the Board of Directors on which a cash dividend is to be paid to Shareholders as of the Dividend Record Date.

"Dividend Record Date" means the record date determined by the Board of Directors in respect of which holders of Shares will be entitled to receive a cash dividend.

"Eligible Shares" means Shares held by Participants.

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"Optional Additional Purchases" means a Participant's purchase for cash of Shares pursuant to the Plan.

"Participant" means a Shareholder who has elected, in accordance with the terms hereof, to participate in the Plan.

"Plan" means the BayFirst Financial Corp. Dividend Reinvestment and Stock Purchase Plan.

"Plan Enrollment Form" means the authorization form required to participate in this Plan to be made available to each Participant by the Agent.

"Purchase Price" means the per Share price at which Shares are acquired pursuant to the Plan.

"Securities Act" means the Securities Act of 1933, as amended.

"Share" means a share of Company common stock.

"Shareholder" means a holder of a Share.

Features

Under the Plan, a Participant may purchase Shares with the cash dividends paid on the Eligible Shares which are registered in the name of the Participant or held in a Participant's account maintained pursuant to the Plan.

A Participant may also make Optional Additional Purchases on each Dividend Payment Date. The maximum purchase price of Optional Additional Purchases a Participant may make in any one calendar quarter is \$75,000. The minimum purchase price of Optional Additional Purchases a Participant may make in any one calendar quarter is \$250.

Shares shall be acquired by one of two methods. First, the Agent shall purchase Shares on Nasdaq. To the extent sufficient Shares are not acquired by that method, the Company shall issue Shares from the Company's authorized but unissued Shares. The Purchase Price for Shares acquired on Nasdaq shall be the price actually paid for such Shares. The Purchase Price of Shares issued from the Company's authorized but unissued Shares shall be the weighted average price paid for Shares on Nasdaq in such transaction. If no Shares are acquired on Nasdaq, the Purchase Price shall be the closing price on Nasdaq on the day immediately preceding the date of issuance. No commissions, service charges, or brokerage fees are payable by Participants in connection with the purchase of Shares under the Plan. The Company shall pay all such expenses.

Dividends in respect of whole and fractional Shares (using five decimal places) purchased under the Plan will be credited to a Participant's account and will be automatically invested as instructed by such Participant under the Plan until such time as the Participant's participation in the Plan is terminated.

Market Risk

Shares are purchased and sold for the Plan on specified dates or during specified periods. As a result, Participants have no control over the price at which Shares are purchased or sold and Participants may pay a higher purchase price or receive a lower sales price than if a Participant

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had purchased or sold the Shares outside of the Plan. Participants bear the risk of fluctuations in the price of Shares.

Participation

Participation and Enrollment in the Plan

A Shareholder who is a registered holder of Shares of record may enroll in the Plan at any time by completing a Plan Enrollment Form and returning it to the Agent. A Shareholder who is a beneficial owner of Shares must enroll through their broker, bank, or other nominee.

A registered Shareholder's completed Plan Enrollment Form must be received by the Agent no later than the Dividend Record Date in order for that cash dividend to be invested under the Plan on the relevant Dividend Payment Date or for an Optional Additional Purchase to be made on that Dividend Payment Date. If the Agent receives the Enrollment Form after such date, the cash dividend will be paid to the Shareholder in the usual manner and participation in this Plan will be initiated for subsequent cash dividends and any funds remitted for an Optional Additional Purchase shall be retained until the next Dividend Payment Date, at which time the Agent shall apply such funds to an Optional Additional Purchase on behalf of such Participant.

Once a Participant is enrolled, the Company will forward to the Agent all of the Participant's cash dividends on Shares (less any applicable withholdings) and direct the Agent to invest such amounts in Shares for the benefit of the Participant. The Agent will apply such funds received under the Plan to the purchase of additional Shares under the Plan.

A Participant may make Optional Additional Purchases by remitting funds to the Agent no later than three (3) Business Days prior to a Dividend Payment Date, in order for such funds to be invested under the Plan on the relevant Dividend Payment Date.

The minimum amount of an Optional Additional Purchase for any Participant in any calendar quarter is \$250 of Shares, determined by dividing such amount by the Purchase Price. The maximum amount of an Optional Additional Purchase for any Participant in any calendar quarter is \$75,000 of Shares, as determined by dividing such amount by the Purchase Price.

No interest will be paid to Participants on any funds held for investment under the Plan.

Once a Participant has enrolled in the Plan, participation continues automatically unless terminated in accordance with the terms of the Plan.

Purchase of Shares

On each Dividend Payment Date, the Company shall promptly pay over to the Agent, on behalf of Participants, all cash dividends paid on their Shares (net of applicable withholdings), which shall be used to purchase Shares pursuant to this Plan.

After receiving such funds from the Company, the Agent shall purchase and/or distribute the appropriate number of Shares to each appropriate Participant and the Agent shall hold such Shares in each such Participant's account with Agent.

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Transfer of Participation Rights

The right to participate in the Plan may not be transferred by a Participant.

Termination of Participation and Sales of Shares

A Participant may sell some or all of the Shares held in the Plan by submitting sale instructions in writing to the Administrator either by fax, mail, or scanned email. The Administrator will, within five Business Days of receiving such sale instructions, sell such Shares and deliver the proceeds of such sale, less any brokerage commissions and any other cost of sale. Any full shares and fractional interests in shares may be aggregated and sold with those of other Participants who have submitted a sale instruction; provided, that each sale instruction will be processed no later than five Business Days after the date on which such sale instruction is received by the Administrator. All sale instructions are final when the Administrator receives them; sale instructions cannot be stopped or cancelled. There is a \$15.00 fee to process all sale instructions.

Participation in the Plan may be terminated by a Participant at any time by sending written notification of withdrawal to the Agent; provided, a Participant whose participation is through a broker, bank, or other nominee must coordinate such withdrawal through such nominee. Upon termination of participation in the Plan, the Agent shall deliver to the Participant a certificate for whole shares credited to his or her account. In addition, any fraction of a Share held for the account of such Participant will be cancelled in exchange for such cash payment prorated to the last Purchase Price established prior to the date of termination.

If the notice of termination is received by the Close of Business at least five (5) Business Days prior to a Dividend Record Date, termination of the Participant's Participation in the Plan will be effective in respect of that Dividend Record Date. Otherwise, the termination will be effective in respect of the next succeeding Dividend Record Date. A termination by a Participant will not prevent such Shareholder from Participating in the Plan at a later date.

After termination of participation in the Plan, all subsequent dividends will be paid to the former Participant in cash in the usual manner.

Participation in the Plan will be terminated upon receipt by the Agent of evidence satisfactory to the Agent of the death of a Participant; thereafter all dividends paid in respect of the Shares of the deceased Participant will be paid in cash.

Amendment, Suspension or Termination of the Plan

The Company reserves the right to amend, suspend, or terminate the Plan at any time, but such action shall have no retroactive effect that would prejudice the interest of the Participants.

In the event of suspension or termination of the Plan by the Company, no investment will be made by the Agent on the Dividend Payment Date immediately following the effective date of such suspension or termination. Any dividend subject to the Plan and paid after the effective date of any such suspension or termination will be remitted by the Company to the Participants in cash only, in the usual manner.

The Company may remove the Agent at any time on not less than ninety (90) days prior notice to the Agent, and appoint another Agent.

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Similarly, the Agent may resign at any time on not less than ninety (90) days prior notice to the Company and upon delivery to the Company of all property and records held in connection with the Plan.

Rules and Regulations

The Company, in conjunction with the Agent, may from time to time adopt rules and regulations to facilitate the administration of the Plan. The Company also reserves the right to regulate and interpret the Plan as it deems necessary or desirable to ensure the efficient and equitable operation of the Plan.

Costs

There shall not be any commissions, service charges, or brokerage fees payable by Participants in connection with the issuance of Shares under the Plan. All administrative costs of the Plan shall be borne by the Company.

Recording & Certificates

Reports to Participants

An account will be maintained by the Agent for each Participant with respect to purchases of Shares under the Plan for the account of such Participant. An unaudited statement of account regarding purchases under the Plan will be distributed on a quarterly basis to each Participant who is a registered holder of Shares. These statements of account are a Participant's continuing record of purchases of Shares made on behalf of such Participant pursuant to the Plan and should be retained for income tax purposes. Participants are responsible for calculating and monitoring their own adjusted cost basis in Shares for income tax purposes, as certain averaging rules may apply and such calculations may depend on the cost of other Shares held by a Shareholder. Beneficial owners of Shares who are enrolled in the Plan through a nominee may or may not be provided with such reports or forms from their nominee.

Withdrawals

Shares purchased under the Plan will be held by the Agent for Participants. Certificates for such Shares will not be issued to Participants unless specifically requested by a Participant.

Shares held by the Agent for a Participant may not be pledged, sold or otherwise disposed of by the Participant while so held. A Participant who wishes to effect any such transaction must remove such Shares from the Plan and request that the certificates, or other evidence of ownership, for such Shares be issued in the Participant's name.

Responsibilities of the Company and the Agent

The Company and the Agent shall not be liable for any act, or any omission to act, in connection with the operation of the Plan including, without limitation, any claims for liability:

- relating to the determination from time to time of the Purchase Price and the times purchases of Shares are made;

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- resulting from changes in the market price of Shares or the prices at which Plan transactions are effected, including, but not limited to those occurring between a dividend reinvestment or optional cash purchase or a termination and a sale of Shares held under the Plan

- arising from a decision to participate in the Plan;
- arising in connection with income taxes (together with any applicable interest and/or penalties) payable by Participants in connection with their participation in the Plan; or
- arising out of actions taken as a result of inaccurate or incomplete information or instructions.

Participants should recognize that neither the Company nor the Agent can assure a profit or protection against a loss on the Shares purchased under the Plan.

Compliance with Laws

The operation and implementation of the Plan is subject to compliance with all applicable legal requirements, including obtaining all appropriate regulatory approvals and exemptions from registration and prospectus requirements, and the requirements of any stock exchange on which the Shares are listed. The Company may limit the Shares issuable under the Plan in connection with discretionary exemptive relief relating to the Plan granted by any securities regulatory authority.

Notices

All notices required to be given under the Plan shall be mailed to a Participant at the address shown on the records of the Agent's or the Participant's broker, as the case may be.

Notices to the Agent shall be sent to:

Continental Stock Transfer & Trust Company
One State Street Plaza, 30th Floor
New York, NY 10004

Notices to the Company shall be sent to:

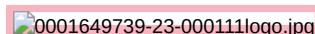
BayFirst Financial Corp.
700 Central Avenue
St. Petersburg, Florida 33701

Effective Date of the Plan

The effective date of the Plan is August 31, 2016.

The Plan was amended and restated on December 30, 2021.

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Code of Ethics

PREFACE

On July 27, 2021, the Board of Directors of BayFirst Financial Corp. ("Company") adopted this Code of Ethics ("Code"), as contemplated by the Sarbanes-Oxley Act of 2002. The honesty, integrity, and sound judgment of the Company's directors, officers, and employees are fundamental to the reputation and success of the Company and its subsidiary, BayFirst National Bank ("Bank"). The professional and ethical conduct of all such individuals is essential to the proper function and success of the Company as a leading financial services provider. Therefore, all such individuals are required to observe the highest standards of ethical business conduct, including strict adherence to this Code, as well as the Company's other general codes of ethics or conduct and policies, which this Code supplements.

All Company directors, officers, and employees hold an important role in corporate governance. These individuals are capable and empowered to ensure that the interests of our stakeholders (including shareholders, customers, employees, suppliers, and residents of the communities in which the Company operates) are appropriately balanced, protected, and preserved. Such individuals fulfill this responsibility by prescribing, following, and/or enforcing the policies and procedures employed in the Company's financial operations.

Code of Ethics

All directors, officers, and employees of the Company must:

- Act at all times ethically, with honesty and integrity, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships. For purposes of this Code, the "actual or apparent conflicts of interest" shall be broadly construed and include, for example, direct conflicts,

indirect conflicts, potential conflicts, apparent conflicts, and any other personal, business, or professional relationship or dealings that has a reasonable possibility of creating even the mere appearance of impropriety. All directors, officers, and employees must disclose any material transaction or relationship that could reasonably give rise to an actual or apparent conflict.

- Ensure that all reasonable and necessary steps within his or her areas of responsibility are taken to provide full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with or submits to the Securities and Exchange Commission ("SEC") or state regulators, and in all other regulatory filings. In addition, All directors, officers, and employees must provide full, fair, accurate, and understandable information whenever communicating with the Company's shareholders or the general public.
- Provide colleagues with information that is accurate, complete, objective, relevant, timely, and understandable.
- Take all reasonable measures to protect the confidentiality of non-public information about the Company, its business, operations, and customers obtained or created in connection with such individual's activities and to prevent the unauthorized disclosure of any such information, unless required by law, regulation, or legal or regulatory process.
- Conduct the business of the Company in compliance with all applicable laws, rules, and regulations of federal, state, and local governments and other appropriate private and public regulatory agencies.
- Not directly or indirectly take any action to fraudulently influence, coerce, manipulate, or mislead the Company's independent public auditors for the purposes of rendering the Company's financial statements misleading.

- Act in good faith, with due care, competence, and diligence, without misrepresenting material facts or allowing independent judgment to be subordinated.
- Share knowledge and maintain skills necessary and relevant to the Company's needs.
- Proactively promote ethical and honest behavior within the workplace.
- Assure responsible use of and control of all assets, resources, and information in possession of the Company.
- Notify promptly corporate counsel or the Chairman of the Audit Committee regarding any actual or potential violation of this Code and/or any applicable securities or other laws, rules, or regulations. An individual may choose to remain anonymous in reporting any possible violation of this Code. Each director, officer, or employee is responsible for ensuring that his or her own conduct complies with this Code.
- Anyone who violates provisions of this Code by engaging in unethical conduct, failing to report conduct potentially violative of this Code or refusing to participate in any investigation of such conduct, will be subject to disciplinary actions, up to and including termination of service with the Company. Violations of this Code may also constitute violations of law and may result in civil or criminal penalties.
- The Board of Directors, or a designated committee thereof, of the Company shall be responsible for the administration of this Code and shall have the sole authority to amend this Code or grant waivers of its provisions. Waivers and amendments to this Code must be disclosed as required by the Securities Exchange Act of 1934 and the rules thereunder.

Exhibit 21.1 Subsidiaries of BayFirst Financial Corp.

BayFirst National Bank (formerly First Home Bank)

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Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-261064, etc.) of BayFirst Financial Corp. of our report dated **March 27, 2023** **March 28, 2024**, with respect to the consolidated financial statements of BayFirst Financial Corp., included in this Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

/s/ FORVIS, LLP **(Formerly, Dixon Hughes Goodman LLP)**

Tampa, Florida

March 27, 2023 **28, 2024**

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 Annual Report on Form 10-K (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: **March 27, 2023** **March 28, 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, Robin L. Oliver, Scott J. McKim, certify that:

1. I have reviewed this Annual Report on Form 10-K (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: March 27, 2023 March 28, 2024

By: /s/ Robin L. Oliver Scott J. McKim

Robin L. Oliver Scott J. McKim

Chief Financial Officer and Chief Operating 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 Annual Report on Form 10-K of the Company for the annual period ended **December 31, 2022** **December 31, 2023** (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: **March 27, 2023** **March 28, 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, **Robin L. Oliver**, **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 Annual Report on Form 10-K of the Company for the annual period ended **December 31, 2022** **December 31, 2023** (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: **March 27, 2023** **March 28, 2024**

By: /s/ Robin L. Oliver Scott J. McKim
Robin L. Oliver **Scott J. McKim**
Chief Financial Officer and Chief Operating Officer
(principal financial officer)

POLICY 1685

Approved November 28, 2023

Executive Incentive Compensation Clawback Policy

DEFINITION AND PURPOSE

Pursuant to Securities and Exchange Commission Rule 10D-1 and Nasdaq Marketplace Rule 5608, the Board of Directors of BayFirst Financial Corp. (the "Company") has adopted this Executive Incentive Compensation Clawback Policy (this "Policy").

Pursuant to this Policy, the Company will recover reasonably promptly the amount of erroneously awarded incentive-based compensation in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

This Policy applies to all incentive-based compensation received by a person:

- A. After beginning service as an executive officer;
- B. Who served as an executive officer at any time during the performance period for that incentive-based compensation;
- C. While the Company has a class of securities listed on Nasdaq; and
- D. During the three completed fiscal years immediately preceding the date that the Company is required to prepare an accounting restatement.¹

RESPONSIBILITIES AND ACTION

Notwithstanding the foregoing, the Company's obligation to recover erroneously awarded compensation is not dependent on if or when the restated financial statements are filed.

For purposes of determining the relevant recovery period, the date that the Company is required to prepare an accounting restatement is the earlier to occur of:

- A. The date the Company's board of directors, a committee of the board of directors, or the officer or officers of the Company authorized to take such action if board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an accounting restatement; or
- B. The date a court, regulator, or other legally authorized body directs the Company to prepare an accounting restatement.

The amount of incentive-based compensation that is subject to this Policy ("erroneously awarded compensation") is the amount of incentive-based compensation received that exceeds the amount of incentive-based compensation that otherwise would have been received had it been determined based on the restated amounts, and must be computed without regard to any taxes paid. For incentive-based compensation based on stock price or total shareholder return, where the amount of erroneously awarded compensation is not subject to mathematical recalculation directly from the information in an accounting restatement:

- A. The amount must be based on a reasonable estimate of the effect of the accounting restatement on the stock price or total shareholder return upon which the incentive-based compensation was received; and
- B. The Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq.

¹(A) This Policy also applies to any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years.

However, a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months would be deemed a completed fiscal year.

POLICY 1685

Approved November 28, 2023

Executive Incentive Compensation Clawback Policy

The Company shall recover erroneously awarded compensation in compliance with this Policy except to the extent that the conditions of paragraphs (b)(1)(iv)(A) or (C) of Nasdaq Marketplace 5608² are met, and the Company's Compensation Committee, or in the absence of such a committee, a majority of the independent directors serving on the board, has made a determination that recovery would be impracticable.

The Company shall not indemnify any executive officer or former executive officer against the loss of erroneously awarded compensation.

The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the Federal securities laws.

OFFICER POSITIONS DIRECTLY GOVERNED BY THIS POLICY

Chief Executive Officer

President

Chief Financial Officer

Chief Operating Officer

Chief Accounting Officer

²(A) The direct expense paid to a third party to assist in enforcing the policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of erroneously awarded compensation based on expense of enforcement, the Company must make a reasonable attempt to recover such erroneously awarded compensation, document such reasonable attempt(s) to recover, and provide that documentation to Nasdaq.

(C) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

DISCLAIMER

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