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DELTA REPORT

10-Q

FBNC - FIRST BANCORP /NC/

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	1153
CHANGES	280
DELETIONS	467
ADDITIONS	406

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

FORM 10-Q

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

For the quarterly period ended March 31, 2024 June 30, 2024

Commission File Number 0-15572

FIRST BANCORP
(Exact Name of Registrant as Specified in its Charter)

North Carolina	56-1421916
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
300 SW Broad St., Southern Pines , North Carolina	28387
(Address of Principal Executive Offices)	(Zip Code)
(Registrant's telephone number, including area code)	(910) 246-2500

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

Title of each class	Trading Symbol	Name of each exchange on which registered:
Common Stock, No Par Value	FBNC	The Nasdaq Global Select Market

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 twelve 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 every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

The number of shares of the registrant's Common Stock outstanding on April 30, 2024July 31, 2024 was 41,170,211 41,278,816.

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Further, forward-looking statements are intended to speak only as of the date made. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statements concerning our opinions or judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, geopolitical influences and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2023 Annual Report on Form 10-K ("2023 Annual Report") and Item 1A of Part II of this report.

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Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

($ in thousands - unaudited)	*($ in thousands - unaudited)*	March 31, 2024	December 31, 2023	*($ in thousands - unaudited)*	June 30, 2024	December 31, 2023
Assets	**Assets**			**Assets**		
Cash and due from banks, noninterest-bearing						
Due from banks, interest-bearing						
Total cash and cash equivalents						
Securities available for sale						
Securities available for sale						

Securities available for sale
Securities held to maturity (fair values of $436,655 at March 31, 2024 and $449,623 at December 31, 2023)
Securities available for sale (amortized cost of $2,277,299 and $2,590,099, respectively)
Securities available for sale (amortized cost of $2,277,299 and $2,590,099, respectively)
Securities available for sale (amortized cost of $2,277,299 and $2,590,099, respectively)
Securities held to maturity (fair values of $431,442 and $449,623, respectively)
Presold mortgages in process of settlement
Loans
Loans
Loans
Allowance for credit losses on loans
Net loans
Premises and equipment, net
Premises and equipment, net
Premises and equipment, net
Operating right-of-use lease assets
Accrued interest receivable
Goodwill
Other intangible assets, net
Bank-owned life insurance
Other assets
Total assets
Liabilities
Liabilities
Liabilities
Deposits: Noninterest-bearing deposits
Deposits: Noninterest-bearing deposits
Deposits: Noninterest-bearing deposits
Noninterest-bearing deposits
Noninterest-bearing deposits
Noninterest-bearing deposits
Interest-bearing deposits
Total deposits
Borrowings
Accrued interest payable
Operating lease liabilities
Other liabilities
Total liabilities
Commitments and contingencies
Commitments and contingencies
Commitments and contingencies
Shareholders' Equity
Shareholders' Equity
Shareholders' Equity
Preferred stock, no par value per share. Authorized: 5,000,000 shares
Preferred stock, no par value per share. Authorized: 5,000,000 shares
Preferred stock, no par value per share. Authorized: 5,000,000 shares
Issued & outstanding: none as of March 31, 2024 and December 31, 2023
Issued & outstanding: none as of March 31, 2024 and December 31, 2023
Issued & outstanding: none as of March 31, 2024 and December 31, 2023
Issued & outstanding: none as of June 30, 2024 and December 31, 2023
Issued & outstanding: none as of June 30, 2024 and December 31, 2023
Issued & outstanding: none as of June 30, 2024 and December 31, 2023
Common stock, no par value per share. Authorized: 60,000,000 shares

Issued & outstanding: 41,156,286 shares and 41,109,987 shares as of March 31, 2024 and December 31, 2023, respectively
Issued & outstanding: 41,156,286 shares and 41,109,987 shares as of March 31, 2024 and December 31, 2023, respectively
Issued & outstanding: 41,156,286 shares and 41,109,987 shares as of March 31, 2024 and December 31, 2023, respectively
Issued & outstanding: 41,187,943 shares and 41,109,987 shares as of June 30, 2024 and December 31, 2023, respectively
Issued & outstanding: 41,187,943 shares and 41,109,987 shares as of June 30, 2024 and December 31, 2023, respectively
Issued & outstanding: 41,187,943 shares and 41,109,987 shares as of June 30, 2024 and December 31, 2023, respectively

Retained earnings

Stock in rabbi trust assumed in acquisition

Rabbi trust obligation

Accumulated other comprehensive loss

Total shareholders’ equity

Total liabilities and shareholders’ equity

See accompanying notes to unaudited consolidated financial statements.

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First Bancorp and Subsidiaries

Consolidated Statements of Income

		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands, except share data - unaudited)	*($ in thousands, except share data - unaudited)*	2024	2023	2024	2023
($ in thousands, except share data - unaudited)					
($ in thousands, except share data - unaudited)					
Interest Income					
Interest Income					
Interest Income					
Interest and fees on loans					
Interest and fees on loans					
Interest and fees on loans					
Interest on investment securities:					
Interest on investment securities:					
Interest on investment securities:					
Taxable interest income					
Taxable interest income					
Taxable interest income					
Tax-exempt interest income					
Tax-exempt interest income					
Tax-exempt interest income					
Other, principally overnight investments					
Other, principally overnight investments					
Other, principally overnight investments					
Total interest income					
Total interest income					
Total interest income					
Interest Expense					
Interest Expense					
Interest Expense					
Interest on deposits					
Interest on deposits					

Interest on deposits
Interest on borrowings
Interest on borrowings
Interest on borrowings
Total interest expense
Total interest expense
Total interest expense
Net interest income
Net interest income
Net interest income
Provision for credit losses
Provision for credit losses
Provision for credit losses
Net interest income after provision for credit losses
Net interest income after provision for credit losses
Net interest income after provision for credit losses
Noninterest Income
Noninterest Income
Noninterest Income
Service charges on deposit accounts
Service charges on deposit accounts
Service charges on deposit accounts
Other service charges, commissions and fees
Other service charges, commissions and fees
Other service charges, commissions and fees
Presold mortgage loan fees and gains on sale
Presold mortgage loan fees and gains on sale
Other service charges and fees
Presold mortgage loan fees and gains on sale
Commissions from sales of financial products
Commissions from sales of financial products
Commissions from sales of financial products
SBA consulting fees
SBA consulting fees
SBA consulting fees
SBA loan sale gains
SBA loan sale gains
SBA loan sale gains
Bank-owned life insurance income
Bank-owned life insurance income
Bank-owned life insurance income
Securities losses, net
Securities losses, net
Securities losses, net
Other gains, net
Other gains, net
Other gains, net
Total noninterest income
Total noninterest income
Other income
Total noninterest income

Noninterest Expense

Noninterest Expense

Noninterest Expense

Salaries

Salaries

Salaries

Employee benefits

Employee benefits

Employee benefits

Total personnel expense

Total personnel expense

Total personnel expense

Occupancy expense

Occupancy expense

Occupancy expense

Equipment related expenses

Equipment related expenses

Equipment related expenses

Merger and acquisition expenses

Merger and acquisition expenses

Occupancy and equipment expense

Merger and acquisition expenses

Intangibles amortization

Intangibles amortization

Intangibles amortization

Other operating expenses

Other operating expenses

Other operating expenses

Total noninterest expenses

Total noninterest expenses

Total noninterest expenses

Income before income taxes

Income before income taxes

Income before income taxes

Income tax expense

Income tax expense

Income tax expense

Net income

Net income

Net income

Earnings per common share:

Earnings per common share:

Earnings per common share:

Basic

Basic

Basic

Diluted

Diluted

Diluted

Weighted average common shares outstanding:

Weighted average common shares outstanding:

Weighted average common shares outstanding:	
Basic	
Basic	
Basic	
Diluted	
Diluted	
Diluted	

See accompanying notes to unaudited consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

		Three Months Ended March 31,				
		Three Months Ended March 31,				
		Three Months Ended March 31,				
($ in thousands - unaudited)						
($ in thousands - unaudited)						
		Three Months Ended June 30,			Six Months Ended June 30,	
($ in thousands - unaudited)	*($ in thousands - unaudited)*	2024		2023	2024	2023
Net income						
Net income						
Net income						
Other comprehensive (loss) income:						
Other comprehensive (loss) income:						
Other comprehensive (loss) income:						
Unrealized (losses) gains on securities available for sale:						
Unrealized (losses) gains on securities available for sale:						
Unrealized (losses) gains on securities available for sale:						
Unrealized holding (losses) gains arising during the period, pretax						
Unrealized holding (losses) gains arising during the period, pretax						
Unrealized holding (losses) gains arising during the period, pretax						
Tax benefit (expense)						
Tax benefit (expense)						
Tax benefit (expense)						
Reclassification to realized losses						
Reclassification to realized losses						
Other comprehensive income (loss):						
Unrealized gains (losses) on securities available for sale:						
Unrealized gains (losses) on securities available for sale:						
Unrealized gains (losses) on securities available for sale:						
Unrealized holding gains (losses) arising during the period, pretax						
Unrealized holding gains (losses) arising during the period, pretax						
Unrealized holding gains (losses) arising during the period, pretax						
Tax (expense) benefit						
Reclassification to realized losses						

Tax expense
Tax expense
Tax expense
Postretirement Plans:
Postretirement Plans:
Postretirement Plans:
Amortization of unrecognized net actuarial losses
Amortization of unrecognized net actuarial losses
Amortization of unrecognized net actuarial losses
Tax benefit
Tax benefit
Tax benefit
Other comprehensive (loss) income
Other comprehensive (loss) income
Other comprehensive (loss) income
Other comprehensive income (loss)
Comprehensive income
Comprehensive income
Comprehensive income

See accompanying notes to unaudited consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

($ in thousands, except share data - unaudited)	*($ in thousands, except share data - unaudited)*	Common Stock	Retained Earnings	Stock in Rabbi Trust Assumed in Acquisition	Rabbi Trust Obligation	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	*($ in thousands, except share data - unaudited)*	Common Stock	Retained Earnings	Stock in Rabbi Trust Assumed in Acquisition	Rabbi Trust Obligation	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Three Months Ended March 31, 2023														
Three Months Ended March 31, 2023														
Three Months Ended March 31, 2023														
Balances, January 1, 2023														
Balances, January 1, 2023														
Balances, January 1, 2023														
Three Months Ended June 30, 2023														
Three Months Ended June 30, 2023														
Three Months Ended June 30, 2023														
Balances, April 1, 2023														
Balances, April 1, 2023														
Balances, April 1, 2023														
Net income														
Cash dividends declared ($0.22 per common share)														
Change in Rabbi Trust Obligation														
Equity issued related to acquisition														

Stock option exercises
Stock option exercises
Stock option exercises
Stock option exercised
Stock option exercised
Stock option exercised
Stock withheld for payment of taxes
Stock-based compensation
Stock-based compensation
Stock-based compensation
Other comprehensive income (loss)
Balances, March 31, 2023
Other comprehensive loss
Balances, June 30, 2023
Three Months Ended March 31, 2024
Three Months Ended March 31, 2024
Three Months Ended March 31, 2024
Balances, January 1, 2024
Balances, January 1, 2024
Balances, January 1, 2024
Three Months Ended June 30, 2024
Three Months Ended June 30, 2024
Three Months Ended June 30, 2024
Balances, April 1, 2024
Balances, April 1, 2024
Balances, April 1, 2024
Net income
Cash dividends declared ($0.22 per common share)
Change in Rabbi Trust Obligation
Stock options exercised
Stock options exercised
Stock options exercised
Stock withheld for payment of taxes
Stock withheld for payment of taxes
Stock withheld for payment of taxes
Stock-based compensation
Other comprehensive loss
Other comprehensive loss
Other comprehensive loss
Balances, March 31, 2024
Stock-based compensation
Stock-based compensation
Other comprehensive income
Other comprehensive income

Other comprehensive income

Balances, June 30, 2024

See accompanying notes to unaudited consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

($ in thousands, except share data - unaudited)	Common Stock Shares	Common Stock Amount	Retained Earnings	Stock in Rabbi Trust Assumed in Acquisition	Rabbi Trust Obligation	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Six Months Ended June 30, 2023							
Balances, January 1, 2023	35,704	$ 725,153	$ 648,418	$ (1,585)	$ 1,585	$ (341,975)	$ 1,031,596
Net income			44,564				44,564
Cash dividends declared ($0.44 per common share)			(18,049)				(18,049)
Change in Rabbi Trust Obligation				220	(220)		—
Equity issued related to acquisition	5,033	229,489					229,489
Stock option exercised	193	3,703					3,703
Stock withheld for payment of taxes	(6)	(186)					(186)
Stock-based compensation	159	2,692					2,692
Other comprehensive income						3,833	3,833
Balances, June 31, 2023	41,083	$ 960,851	$ 674,933	$ (1,365)	$ 1,365	$ (338,142)	$ 1,297,642
Six Months Ended June 30, 2024							
Balances, January 1, 2024	41,110	$ 963,990	716,420	(1,385)	1,385	(308,030)	1,372,380
Net income			53,984				53,984
Cash dividends declared ($0.44 per common share)			(18,110)				(18,110)
Change in Rabbi Trust Obligation				246	(246)		—
Stock option exercised	52	1,105					1,105
Stock withheld for payment of taxes	(4)	(126)					(126)
Stock-based compensation	30	2,270					2,270
Other comprehensive loss						(7,161)	(7,161)
Balances, June 30, 2024	41,188	$ 967,239	$ 752,294	$ (1,139)	$ 1,139	$ (315,191)	$ 1,404,342

See accompanying notes to unaudited consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

		Three Months Ended March 31,			Six Months Ended June 30,
($ in thousands-unaudited)	*($ in thousands-unaudited)* 2024	2023	*($ in thousands-unaudited)* 2024		2023

Cash Flows From Operating Activities
Net income
Net income
Net income
Reconciliation of net income to net cash (used) provided by operating activities:
Reconciliation of net income to net cash provided by operating activities:
Provision for credit losses
Provision for credit losses
Provision for credit losses
Net security premium amortization
Deferred tax benefit
Deferred income taxes
Loan discount accretion
Deposit and debt discount accretion, net
Foreclosed property gains, net
Losses on calls of securities, net
Securities losses, net
Other gains, net
Other gains, net
Other gains, net
Bank-owned life insurance income
Net amortization of deferred loan fees
Net amortization of deferred loan costs/(fees)
Depreciation of premises and equipment
Amortization of operating lease right-of-use assets
Repayments of lease obligations
Stock-based compensation expense
Amortization of intangible assets
Amortization and impairment of SBA servicing assets
Fees/gains from sale of presold mortgages and SBA loans
Origination of presold mortgage loans in process of settlement
Proceeds from sales of presold mortgage loans in process of settlement
Origination of SBA loans for sale
Proceeds from sales of SBA loans
Gains on sale of loans
Origination of presold mortgage loans in process of settlement and SBA loans held for sale
Proceeds from sales of presold mortgage loans in process of settlement and SBA loans
Increase in accrued interest receivable
(Increase) decrease in other assets
Decrease in other assets
Increase in accrued interest payable
Decrease in other liabilities
Net cash (used) provided by operating activities
Net cash provided by operating activities
Cash Flows From Investing Activities
Proceeds from maturities, calls and principal repayments of securities available for sale
Proceeds from maturities, calls and principal repayments of securities available for sale
Proceeds from maturities, calls and principal repayments of securities available for sale
Proceeds from maturities, calls and principal repayments of securities held to maturity
Proceeds from sales of securities available for sale
Proceeds from sale of VISA B shares

Purchases of Federal Reserve and FHLB stock
Redemptions of Federal Reserve and FHLB stock
Purchases of other investments
Purchases of other investments
Proceeds from bank owned life insurance death benefits
Proceeds from bank owned life insurance death benefits
Proceeds from bank owned life insurance death benefits
Purchases of other investments
Net decrease (increase) in loans
Proceeds from sales of foreclosed properties
Purchases of premises and equipment
Proceeds from sales of premises and equipment
Net cash received in acquisition activities
Net cash provided by investing activities
Net cash provided by investing activities
Net cash provided by investing activities
Net cash provided by (used in) investing activities
Net cash provided by (used in) investing activities
Net cash provided by (used in) investing activities
Cash Flows From Financing Activities
Net increase in deposits
Net increase in deposits
Net increase in deposits
Advances from other borrowings
Net increase (decrease) in deposits
Net increase (decrease) in deposits
Net increase (decrease) in deposits
Proceeds from the issuance of other borrowings
Repayment of other borrowings
Repayment of subordinated debentures
Cash dividends paid – common stock
Proceeds from stock option exercises
Proceeds from stock option exercises
Proceeds from stock option exercises
Payment of taxes related to stock withheld
Net cash (used) provided by financing activities
Increase in cash and cash equivalents
Cash and cash equivalents, beginning of period
Cash and cash equivalents, end of period

(Continued)

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First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

		Three Months Ended March 31,			Six Months Ended June 30,	
($ in thousands-unaudited)	*($ in thousands-unaudited)*	2024	2023	*($ in thousands-unaudited)*	2024	2023
Supplemental Disclosures of Cash Flow Information:						
Cash paid during the period for interest						
Cash paid during the period for interest						

Cash paid during the period for interest						
Cash paid during the period for income taxes						
Non-cash: Unrealized (loss) gain on securities available for sale, net of taxes						
Non-cash: Foreclosed loans transferred to other real estate						
Non-cash: Accrued dividends at end of period						
Non-cash: Cancellation of operating lease right-of-use assets and operating lease liabilities						
Acquisition of GrandSouth Bancorporation						
Acquisition of GrandSouth Bancorporation						
Acquisition of GrandSouth Bancorporation	—	See Note 2	See Note 2	—	See Note 2	See Note 2

See accompanying notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1. Organization and Basis of Presentation

The consolidated financial statements include the accounts of First Bancorp (the “Company”) and its wholly owned subsidiary First Bank (the “Bank”). The Bank has three wholly owned subsidiaries that are fully consolidated, SBA Complete, Inc. (“SBA Complete”), Magnolia Financial, Inc. ("Magnolia Financial"), and First Troy SPE, LLC. All significant intercompany accounts and transactions have been eliminated. During the second quarter of 2024, SBA Complete became inactive with certain activities transitioning to the Bank.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and notes necessary for complete financial statements in accordance with GAAP. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of March 31, 2024 June 30, 2024, the consolidated results of operations income, comprehensive income and shareholders' equity for the three and six months ended March 31, 2024 June 30, 2024 and 2023, and the consolidated cash flows for the three six months ended March 31, 2024 June 30, 2024 and 2023. Any such adjustments were of a normal, recurring nature. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes in the 2023 Annual Report for the year ended December 31, 2023. Operating results for interim period are not necessarily indicative of the results that may be expected for the full year.

Reference is made In certain instances, amounts reported in prior years’ consolidated financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on previously reported shareholders’ equity or net income.

Refer to Note 1 of the 2023 Annual Report filed with the Securities and Exchange Commission (“SEC”) for a discussion of accounting policies and other relevant information with respect to the financial statements.

The Company has evaluated all subsequent events through the date the consolidated financial statements were issued.

Accounting Standards Adopted in 2024

Accounting Standards Update ("ASU") *2023-02*, “*Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*” permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. This update is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The adoption of ASU 2023-02 did not have a significant impact on the Company's consolidated financial statements.

Accounting Standards Pending Adoption

ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" amended existing guidance to improve disclosures about a public entity’s reportable segments and provide more detailed information about a reportable segment’s expenses. ASU 2023-07 clarifies that an entity which has a single reportable segment is to provide all the disclosures required by Topic 280 and ASU 2023-07. The amendment is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The adoption of ASU 2023-07 is not expected to have a significant impact on the Company's consolidated financial statements.

ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures” amends existing guidance to improve the transparency of income tax disclosures, including disclosure of specific categories in the rate reconciliation, providing additional information for certain reconciling items, and providing details on income taxes

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paid. The amendments are effective for annual periods beginning after December 15, 2024. The adoption of ASU 2023-09 is not expected to have a significant impact on the Company's consolidated financial statements.

Other accounting standards that have been issued or proposed by the Financial Accounting Standards Board ("FASB") or other standards-setting bodies are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows. statements.

Note 2. Acquisitions

On January 1, 2023, the Company completed its acquisition of GrandSouth Bancorporation ("GrandSouth"), in an all-stock transaction pursuant to the Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), dated June 21, 2022, between the Company and GrandSouth. At the closing of the transaction, GrandSouth merged into the Company. Following the merger of the Company and GrandSouth, GrandSouth Bank, a wholly-owned subsidiary of GrandSouth, merged into the Bank with the Bank being the surviving entity. The results of GrandSouth are included beginning on the January 1, 2023 acquisition date.

Pursuant to the Merger Agreement, each share of common and preferred stock of GrandSouth issued and outstanding immediately prior to the effective time of the acquisition was converted into 0.91 shares of the Company's common stock. As a result, the Company issued 5,032,834 shares of the Company common stock effective January 1, 2023. In addition, GrandSouth common stock options outstanding at the merger effective time were converted to options to acquire 0.91 shares of the Company's common stock resulting in 542,345 options with an average exercise price of approximately $20.14. The total consideration transferred at the close of the transaction was $229.5 million which was determined based on the number of shares issued and the closing market price of the Company's stock immediately prior to the merger effective time of $42.84. In addition to the stock issued, the fair value of the converted stock options calculated in accordance with FASB Accounting Standards Codification ("ASC") 805-30-55 was included in the total consideration of the transaction.

As a result of the merger, eight branches in South Carolina were added to the Company's branch network. The acquisition accomplished the Company's strategic initiative to expand its presence in South Carolina, specifically in the high-growth markets of the state including Greenville, Charleston and Columbia. Significant synergies were anticipated to be gained from the acquisition, with asset growth and revenue enhancement opportunities from the new markets and expanded customer base. Accordingly, the Company recognized goodwill in the transaction related primarily to the reasons noted, as well as the positive earnings of GrandSouth.

This transaction was accounted for using the acquisition method of accounting for business combinations, and accordingly, the assets acquired, intangible assets identified, and liabilities assumed of GrandSouth were recorded based on estimates of fair values as of January 1, 2023. The determination of fair value requires management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and subject to change. Estimated fair values were based on management's best estimates, using the information available at the date of acquisition, including the use of third-party valuation specialists. Management has finalized the valuations of all acquired assets and liabilities assumed in the GrandSouth acquisition.

The following table summarizes the estimated fair value of acquired assets, identified intangible assets, and liabilities assumed as of January 1, 2023. Following the table is a discussion of valuation approaches utilized in estimating the fair values in accordance with ASC 805-10, "*Business Combinations*." The $114.5 million in goodwill that resulted from this transaction is non-deductible for tax purposes.

($ in thousands)	Fair Value Estimate
Assets acquired:	
Cash and cash equivalents	$ 22,610
Securities available for sale	112,363
Loans, gross	996,833
Allowance for loan losses	(5,610)
Premises and equipment	20,268
Core deposit intangible	28,840
Operating right-of-use lease assets	732
Other assets	27,163
Total	1,203,199
Liabilities assumed:	
Deposits	1,045,308
Borrowings	38,800
Other liabilities	4,089
Total	1,088,197
Net identifiable assets acquired	115,002
Less: Total consideration	229,489
Goodwill recorded related to acquisition of GrandSouth	$ 114,487

The following is a description of the methods used to determine the fair values of significant assets acquired and liabilities assumed included in the table above.

Cash and cash equivalents: This consists primarily of cash and due from banks, and interest-bearing deposits with banks. The carrying amount of these assets was a reasonable estimate of fair value based on the short-term nature of these assets.

Securities available for sale: Fair value of securities was measured based on quoted market prices, where available. If a quoted market price was not available, fair value was estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument and the instrument being valued. Substantially all of the securities acquired from GrandSouth were liquidated at their recorded fair value upon close of the transaction or shortly thereafter. There was no gain or loss recorded on the sale of acquired securities.

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Loans: Fair value of loans acquired was based on a discounted cash flow methodology that considered factors including loan type and related collateral, classification status, remaining term of the loan, fixed or variable interest rate, amortization status, and current discount rates. Expected cash flows were derived using inputs consistent with management's assessment of credit risk for allowance measurement, including estimated future credit losses and estimated prepayments. A total fair value adjustment of $29.5 million was recorded. Purchased loans with financial deterioration ("PCD loans") were determined based primarily on internal grades, delinquency status, and other evidence of credit deterioration. The Company calculated the initial allowance of $5.6 million on PCD loans in accordance with its current expected credit loss model ("CECL") and reclassified that amount from the fair value adjustment to establish the initial allowance for credit losses ("ACL") on PCD loans. The following table presents additional information related to the acquired loan portfolio at the acquisition date:

($ in thousands)	January 1, 2023
PCD Loans:	
Par value	$ 152,487
Allowance for credit losses	(5,610)
Non-credit discount	(1,370)
Purchase price	145,507
Non-PCD Loans:	
Fair Value	845,716
Gross contractual amounts receivable	865,132
Estimate of contractual cash flows not expected to be collected	22,542

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Premises: Land and buildings held for use were valued at appraised values, which reflected considerations of recent disposition values for similar property types with adjustments for characteristics of individual properties.

Intangible assets: Core deposit intangible ("CDI") asset represents the value of the relationships with deposit customers. The fair value for the core deposit intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of deposit base, net maintenance cost attributable to customer deposits and an estimate of the cost associated with alternative funding sources. The discount rates used for CDI assets were based on market rates. The CDI is being amortized over 10 years utilizing the sum of the months digits accelerated method, which results in a weighted-average amortization period of approximately 41 months.

Lease Assets and Lease Liabilities: Lease assets and lease liabilities were measured using a methodology that involved estimating the future lease payments over the remaining lease term with discounting using a discount rate. The lease term was determined for individual leases based on management's assessment of the probability of exercising existing renewal options.

Deposits: The fair values used for the demand and savings deposits by definition equal the amount payable on demand at the acquisition date. Fair values for time deposits were estimated using a discounted cash flow analysis applying interest rates currently offered to the contractual interest rates on such time deposits.

Borrowings: The fair values of long-term debt instruments were estimated based on quoted market prices for instrument if available, or for similar instruments if not available.

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Note 3. Securities

The book values and approximate fair values of investment securities at March 31, 2024 June 30, 2024 and December 31, 2023 are summarized as follows:

		March 31, 2024				December 31, 2023							June 30, 2024				December 31, 2023			
($ in thousands)	*($ in thousands)*	Amortized Cost	Fair Value	Unrealized Gains	(Losses)	Amortized Cost	Fair Value Gains	*($ in thousands)*	Unrealized (Losses)	*($ in thousands)*	*($ in thousands)*		Amortized Cost	Fair Value	Gains	Unrealized (Losses)	Amortized Cost	Fair Value Gains		Unrealized (Losses)
Securities available for sale:																				
U.S. Treasuries																				
U.S. Treasuries																				
U.S. Treasuries																				
Government-sponsored enterprise securities																				
Mortgage-backed securities																				
Corporate bonds																				
Total available for sale																				
Securities held to maturity:																				
Securities held to maturity:																				
Securities held to maturity:																				

Mortgage-backed securities

Mortgage-backed securities

Mortgage-backed securities

State and local governments

Total held to maturity

All of the Company's mortgage-backed securities were issued by government-sponsored enterprises ("GSEs"), except for private mortgage-backed securities with a fair value of $0.7 millionas of March 31, 2024 June 30, 2024 and December 31, 2023.

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The following table presents information regarding all securities with unrealized losses at March 31, 2024 June 30, 2024:

		Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total		Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
($ in thousands)	*($ in thousands)*	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	*($ in thousands)*	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
U.S. Treasuries															
Government-sponsored enterprise securities															
Mortgage-backed securities															
Corporate bonds															
State and local governments															
Total unrealized loss position															

The following table presents information regarding all securities with unrealized losses at December 31, 2023:

		Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total		Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
($ in thousands)	*($ in thousands)*	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	*($ in thousands)*	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
US Treasury securities															
U.S. Treasuries															
Government-sponsored enterprise securities															
Mortgage-backed securities															
Corporate bonds															

State and local governments	
Total unrealized loss position	

As of March 31, 2024 June 30, 2024, the Company's securities portfolio held 651 included 621 securities of which 631 600 securities were in an unrealized loss position. As of December 31, 2023, the Company's securities portfolio held included 657 securities of which 632 securities were in an unrealized loss position.

In the above tables, all of the securities that were in an unrealized loss position at March 31, 2024 June 30, 2024 and December 31, 2023 are bonds that the Company has determined are in a loss position due primarily to interest rate factors and not credit quality concerns. In arriving at this conclusion, the Company reviewed third-party credit ratings and considered the severity of the impairment. The state and local government investments are comprised almost entirely of highly-rated municipal bonds issued by state and local governments throughout the nation. The Company has no significant concentrations of bond holdings from one state or local government entity. Nearly all of our mortgage-backed securities were issued by Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), or the Small Business Administration ("SBA"), each of which is a government agency or GSE and guarantees the repayment of the securities.

At March 31, 2024 June 30, 2024 and December 31, 2023, the Company determined that expected credit losses associated with held to maturity securities and available for sale debt securities were insignificant.

The book values and approximate fair values of investment securities at March 31, 2024 June 30, 2024, by contractual maturity, are summarized in the table below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

		Securities Available for Sale		Securities Held to Maturity			Securities Available for Sale		Securities Held to Maturity	
($ in thousands)	($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year										
Due after one year but within five years										
Due after five years but within ten years										
Due after ten years										
Mortgage-backed securities										
Total securities										

At March 31, 2024 June 30, 2024 and December 31, 2023, investment securities with carrying values of $910.8 million $874.1 million and $971.3 million, respectively, were pledged as collateral for public deposits. In addition, at March 31, 2024 June 30, 2024 and December 31, 2023, investment securities with carrying values of $668.9 million $627.0 million and $679.0 million, respectively, were pledged as collateral for Federal Reserve Bank ("Federal Reserve") borrowings.

At March 31, 2024 June 30, 2024 and December 31, 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies or GSEs, in an amount greater than 10% of shareholders' equity.

There During the second quarter of 2024, the Company sold all of its holdings of Class B shares of Visa, Inc. (“Visa”) stock that were no received upon Visa’s initial public offering and recognized a gain of $4.5 million. As the Class B stock did not initially have a readily determinable fair value, it was carried at $0 prior to the sale.

During the three and six months ended June 30, 2024, the Company received proceeds from sales of investment securities during of $138.2 million and recorded $4.7 million in gross losses from the three months ended March 31, 2024. sales. This loss was partially offset by the $4.5 milliongain on the sale of the Visa stock discussed above. During that same period, the first quarter of 2024, the Company received proceeds from the call of a security of $5.2 million and recorded a $975.2 $975 thousand loss related to the unamortized premium balance at the time of the call. During the three months ended March 31, 2023, first quarter of 2023, the Company sold substantially all of the securities acquired from GrandSouth at their initially recorded fair value. values. Accordingly, there was no gain or loss recorded on the sale of acquired securities.

Included in “Other assets” in the consolidated balance sheets are investments in Federal Home Loan Bank (“FHLB”) and Federal Reserve stock totaling $41.4 million and $54.5 million at March 31, 2024 June 30, 2024 and December 31, 2023, respectively. These investments do not have readily determinable fair values. The FHLB stock had a cost of $8.5 million and $21.7 million at March 31, 2024 June 30, 2024 and December 31, 2023, respectively, and serves as part of the collateral for the Company’s line of credit with the FHLB and is also a requirement for membership in the FHLB system. The Federal Reserve stock had a cost and fair value of $32.9 million and $32.8 million at March 31, 2024 June 30, 2024 and December 31, 2023, respectively, and is a requirement for Federal Reserve member bank qualification.

Periodically, both the FHLB and Federal Reserve recalculate the Company's required level of holdings, and the Company either buys more stock or redeems a portion of the stock at cost. The Company determined that neither stock was impaired at either period end.

On March 31, 2024, the Company owned 12,356 Class B shares of Visa, Inc. ("Visa") stock that were received upon Visa's initial public offering. These shares were expected to convert into Class A Visa shares subsequent to the settlement of certain litigation against Visa, to which the Company is not a party. The Class B shares have transfer restrictions, and the conversion rate into Class A shares was periodically adjusted as Visa settles litigation. The conversion rate at March 31, 2024 was 1.5875, which means the Company would have received approximately 19,615 Class A shares if the stock had converted on that date. As the Class B stock did not have a readily determinable fair value, it was carried at zero. In April 2024, the Class B shares were sold at a conversion rate of 1.5875 and a gain of $4.5 million was recognized.

Note 4. Loans, Allowance for Credit Losses, and Asset Quality Information

The following is a summary of the major categories of total loans outstanding:

($ in thousands)	*($ in thousands)*	March 31, 2024			December 31, 2023			*($ in thousands)*	June 30, 2024			December 31, 2023		
		Amount		Percentage	Amount		Percentage		Amount		Percentage	Amount		Percentage
Commercial and industrial	Commercial and industrial	$ 872,623	11	11 %	$ 905,862	11	11 %	Commercial and industrial	$ 863,366	11	11 %	$ 905,862	11	11 %
Construction, development & other land loans	Construction, development & other land loans	904,216	11	11 %	992,980	12	12 %	Construction, development & other land loans	764,418	9	9 %	992,980	12	12 %
Commercial real estate - owner occupied	Commercial real estate - owner occupied	1,238,759	15	15 %	1,259,022	16	16 %	Commercial real estate - owner occupied	1,250,267	16	16 %	1,259,022	16	16 %
Commercial real estate - non owner occupied	Commercial real estate - non owner occupied	2,524,221	31	31 %	2,528,060	31	31 %	Commercial real estate - non owner occupied	2,561,803	32	32 %	2,528,060	31	31 %
Multi-family real estate	Multi-family real estate	457,142	6	6 %	421,376	5	5 %	Multi-family real estate	497,187	6	6 %	421,376	5	5 %
Residential 1-4 family real estate	Residential 1-4 family real estate	1,684,173	21	21 %	1,639,469	20	20 %	Residential 1-4 family real estate	1,729,050	21	21 %	1,639,469	20	20 %
Home equity loans/lines of credit	Home equity loans/lines of credit	328,466	4	4 %	335,068	4	4 %	Home equity loans/lines of credit	326,411	4	4 %	335,068	4	4 %
Consumer loans	Consumer loans	66,666	1	1 %	68,443	1	1 %	Consumer loans	76,638	1	1 %	68,443	1	1 %
Subtotal	Subtotal	8,076,266	100	100 %	8,150,280	100	100 %	Subtotal	8,069,140	100	100 %	8,150,280	100	100 %
Unamortized net deferred loan fees														

Unamortized net deferred loan costs/(fees)

Total loans

Total loans

Total loans

Also included in the table above are various SBA loans, generally originated under the SBA 7A program, with additional information on these loans presented in the table below.

($ in thousands)	*($ in thousands)*	March 31, 2024	December 31, 2023	*($ in thousands)*	June 30, 2024	December 31, 2023
Guaranteed portions of SBA loans included in table above						
Unguaranteed portions of SBA loans included in table above						
Total SBA loans included in the table above						
Sold portions of SBA loans with servicing retained - not included in tables above						
Sold portions of SBA loans with servicing retained - not included in tables above						
Sold portions of SBA loans with servicing retained - not included in tables above						

At March 31, 2024 June 30, 2024 and December 31, 2023, there were remaining unaccreted discounts on the retained portion of sold SBA loans amounting to $3.4 million $3.2 million and $3.5 milion, respectively.

At March 31, 2024 June 30, 2024 and December 31, 2023, loans in the amount of $6.6 billion and $6.5 billion, respectively,were pledged as collateral for certain borrowings.

At March 31, 2024 June 30, 2024 and December 31, 2023, total loans included loans to executive officers and directors of the Company, and their associates, totaling approximately $64.6 million $63.9 million and $63.7 million, respectively. There were no While there was one new loans, loan, advances on existing loans totaled approximately $1.4 million $1.3 million for the three six months ended March 31, 2024 June 30, 2024, and repayments amounted to $0.5 million $1.0 million for that period. Available credit on related party loans totaled $1.2 million $1.3 million and $2.7 million at March 31, 2024 June 30, 2024 and December 31, 2023, respectively.

As of March 31, 2024 June 30, 2024 and December 31, 2023, unamortized discounts on all acquired loans totaled $21.6 million $19.3 million and $24.0 million, respectively. Loan discounts are generally amortized as yield adjustments over the respective lives of the loans, so long as the loans perform.

Nonperforming assets ("NPAs") are defined as nonaccrual loans, modifications to borrowers in financial distress, loans past due 90 or more days and still accruing interest, and foreclosed real estate.

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The following table summarizes the NPAs for each period date presented.

($ in thousands)	March 31, 2024	December 31, 2023
Nonaccrual loans	$ 35,622	32,208
Modifications to borrowers in financial distress	10,999	11,719
Total nonperforming loans	46,621	43,927
Foreclosed real estate	926	862
Total nonperforming assets	$ 47,547	44,789

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($ in thousands)	June 30, 2024	December 31, 2023
Nonaccrual loans	$ 33,102	$ 32,208
Modifications to borrowers in financial distress	10,495	11,719
Accruing loans > 90 days past due	—	—
Total nonperforming loans	43,597	43,927

Foreclosed real estate	1,150	862
Total nonperforming assets	$ 44,747	$ 44,789

At March 31, 2024 June 30, 2024 and December 31, 2023, the Company had $1.6 million $1.8 million and $1.0 million, respectively, in residential mortgage loans in the process of foreclosure.

At March 31, 2024 June 30, 2024 and December 31, 2023, there was one loan with a commitment to lend an immaterial amount of additional funds to a borrower whose loan was nonperforming.

The following table is a summary of the Company's nonaccrual loans by major categories as of March 31, 2024 June 30, 2024:

($ in thousands)	*($ in thousands)*	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	*($ in thousands)*	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Commercial and industrial								
Construction, development & other land loans								
Commercial real estate - owner occupied								
Commercial real estate - non owner occupied								
Residential 1-4 family real estate								
Residential 1-4 family real estate								
Residential 1-4 family real estate								
Home equity loans/lines of credit								
Consumer loans								
Total								

The following table is a summary of the Company's nonaccrual loans by major categories as of December 31, 2023:

($ in thousands)	*($ in thousands)*	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	*($ in thousands)*	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Commercial and industrial								
Construction, development & other land loans								
Commercial real estate - owner occupied								
Commercial real estate - non owner occupied								
Residential 1-4 family real estate								
Residential 1-4 family real estate								
Residential 1-4 family real estate								
Home equity loans/lines of credit								
Consumer loans								
Total								

There was no interest income recognized during the periods presented on nonaccrual loans. The Company follows its nonaccrual policy of reversing contractual interest income in In the income statement when period that the Company places a loan on nonaccrual status. status, contractual interest income is reversed in the consolidated income statement.

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The following table represents the accrued interest receivables written off by reversing interest income during each period indicated:

($ in thousands)

($ in thousands)

($ in thousands)	*($ in thousands)*	Three Months Ended March 31, 2024	For the Year Ended December 31, 2023	Three Months Ended March 31, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Commercial and industrial						
Construction, development & other land loans						
Commercial real estate - owner occupied						
Commercial real estate - non owner occupied						
Residential 1-4 family real estate						
Residential 1-4 family real estate						
Residential 1-4 family real estate						
Home equity loans/lines of credit						
Consumer loans						
Total						

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The following table presents an analysis of the payment status of the Company's loans as of March 31, 2024 June 30, 2024:

($ in thousands)

($ in thousands)

($ in thousands)	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Nonaccrual Loans	Accruing Current	Total Loans Receivable	Accruing Current	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Nonaccrual Loans	Total Loans Receivable
Commercial and industrial										
Construction, development & other land loans										
Commercial real estate - owner occupied										
Commercial real estate - non owner occupied										
Multi-family real estate										
Residential 1-4 family real estate										
Home equity loans/lines of credit										
Consumer loans										
Total										
Unamortized net deferred loan fees										
Unamortized net deferred loan costs/(fees)										
Total loans										

The following table presents an analysis of the payment status of the Company's loans as of December 31, 2023:

($ in thousands)

($ in thousands)

($ in thousands)	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Nonaccrual Loans	Accruing Current	Total Loans Receivable	Accruing Current	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Nonaccrual Loans	Total Loans Receivable
Commercial and industrial										
Construction, development & other land loans										

Commercial real estate - owner occupied
Commercial real estate - non owner occupied
Multi-family real estate
Residential 1-4 family real estate
Home equity loans/lines of credit
Consumer loans
Total
Unamortized net deferred loan fees
Unamortized net deferred loan costs/(fees)
Total loans

Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. The Company reviews individually evaluated loans on nonaccrual with a net book balance of $500,000 or greater for designation as collateral dependent loans, as well as certain other loans that may still be accruing interest and/or are less than $500,000 in size that management of the Company designates as having higher risk. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the ACL.

The following table presents an analysis of collateral dependent loans of the Company as of March 31, 2024:

($ in thousands)	Residential Property	Business Assets	Commercial Property	Total Collateral-Dependent Loans
Commercial and industrial	$ —	878	—	878
Construction, development & other land loans	—	263	3,452	3,715
Commercial real estate - owner occupied	—	—	8,645	8,645
Commercial real estate - non owner occupied	—	—	15,444	15,444
Residential 1-4 family real estate	1,035	—	—	1,035
Home equity loans/lines of credit	525	—	—	525
Total	$ 1,560	1,141	27,541	30,242

Allowance for Credit Losses ("ACL").

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The following table presents an analysis of collateral dependent loans of the Company as of December 31, 2023 June 30, 2024:

($ in thousands)

($ in thousands)

($ in thousands)	Residential Property	Business Assets	Commercial Property	Total Collateral-Dependent Loans	Residential Property	Business Assets	Commercial Property	Total Collateral-Dependent Loans
Commercial and industrial								
Commercial real estate - owner occupied								
Commercial real estate - owner occupied								
Construction, development & other land loans								
Commercial real estate - owner occupied								
Commercial real estate - non owner occupied								
Home equity loans/lines of credit								
Home equity loans/lines of credit								
Home equity loans/lines of credit								
Total								
Total								

Total	

Under CECL, for The following table presents an analysis of collateral dependent loans of the Company has adopted the practical expedient to measure the ACL based on the fair value as of collateral. The ACL is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required. December 31, 2023:

($ in thousands)	Residential Property	Business Assets	Commercial Property	Total Collateral-Dependent Loans
Commercial and industrial	$ —	$ 2,385	$ —	$ 2,385
Commercial real estate - owner occupied	—	—	1,142	1,142
Commercial real estate - non owner occupied	—	—	6,121	6,121
Home equity loans/lines of credit	534	—	—	534
Total	$ 534	$ 2,385	$ 7,263	$ 10,182

The Company's policy is to obtain third-party appraisals on any significant pieces There have been no material changes from the treatment of collateral. For collateral dependent loans secured by real estate, under CECL as discussed in Note 4 of the Company's policy is to write nonaccrual loans down to 90% of Annual Report on Form 10-K for the appraised value, which considers estimated selling costs that are usually incurred when disposing of real estate collateral. For real estate collateral that is in industries which may be undergoing heightened stress due to economic or other external factors, the Company may reduce the collateral values by an additional 10-25% of appraised value to recognize additional discounts that are estimated to be incurred in a near-term sale. For non-real estate collateral secured loans, the Company generally writes nonaccrual loans down to 75% of the appraised value, which provides for selling costs and liquidity discounts that are usually incurred when disposing of non real estate collateral. For reviewed loans that are not on nonaccrual basis, the Company assigns a specific allowance based on the parameters noted above. year ended December 31, 2023.

The following tables presents the activity in the ACL on loans for each of the periods indicated. Fluctuations in the ACL each period are based on loan mix and growth, changes in the levels of nonperforming loans, economic forecasts impacting loss drivers, other assumptions and inputs to the CECL current expected credit loss ("CECL") model, and as occurred in 2023, adjustments for acquired loan portfolios. The change to the level of ACL during the three six months ended March 31, 2024 June 30, 2024 was determined based primarily on updated economic forecasts, which are a key assumption in the CECL model and which indicated a continued deterioration of the commercial real estate index, thus projecting a higher allowance for credit losses balance, partially offset by improvement in certain economic forecasts along with reductions in loan balances during the period.

($ in thousands)	Beginning balance	Charge-offs	Recoveries	Provisions / (Reversals)	Ending balance
As of and for the three months ended March 31, 2024					
Commercial and industrial	$ 21,227	(1,585)	243	409	20,294
Construction, development & other land loans	13,940	(79)	97	(2,175)	11,783
Commercial real estate - owner occupied	18,218	(58)	4	(1)	18,163
Commercial real estate - non owner occupied	24,916	(158)	2	1,492	26,252
Multi-family real estate	3,825	—	—	597	4,422
Residential 1-4 family real estate	21,396	—	121	1,187	22,704
Home equity loans/lines of credit	3,339	—	5	(8)	3,336
Consumer loans	2,992	(235)	57	299	3,113
Total	$ 109,853	(2,115)	529	1,800	110,067

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($ in thousands)	Beginning balance	Initial ACL for acquired PCD loans	Charge-offs	Recoveries	Provisions / (Reversals)	Ending balance
As of and for the year ended December 31, 2023						
Commercial and industrial	$ 17,718	5,197	(8,358)	1,393	5,277	21,227
Construction, development & other land loans	15,128	49	(120)	370	(1,487)	13,940
Commercial real estate - owner occupied	14,972	191	(144)	465	2,734	18,218
Commercial real estate - non owner occupied	22,780	51	(235)	737	1,583	24,916
Multi-family real estate	2,957	—	—	13	855	3,825
Residential 1-4 family real estate	11,354	113	(4)	377	9,556	21,396
Home equity loans/lines of credit	3,158	8	(309)	98	384	3,339

Consumer loans	2,900	1	(1,005)	248	848	2,992
Total	$ 90,967	5,610	(10,175)	3,701	19,750	109,853

($ in thousands)	Beginning balance	Initial ACL for acquired PCD loans	Charge-offs	Recoveries	Provisions / (Reversals)	Ending balance
As of and for the three months ended March 31, 2023						
Commercial and industrial	$ 17,718	5,197	(2,177)	274	2,061	23,073
Construction, development & other land loans	15,128	49	—	65	3,744	18,986
Commercial real estate - owner occupied	14,972	191	—	36	883	16,082
Commercial real estate - non owner occupied	22,780	51	(235)	394	3,000	25,990
Multi-family real estate	2,957	—	—	4	243	3,204
Residential 1-4 family real estate	11,354	113	—	146	672	12,285
Home equity loans/lines of credit	3,158	8	(2)	34	283	3,481
Consumer loans	2,900	1	(207)	36	565	3,295
Total	$ 90,967	5,610	(2,621)	989	11,451	106,396

period, partially offset by a continued reduction of the commercial real estate pricing index, thus resulting in little change to the ACL for the quarter or year to date.

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($ in thousands)	Beginning balance	Charge-offs	Recoveries	Provisions / (Reversals)	Ending balance
As of and for the three months ended June 30, 2024					
Commercial and industrial	$ 20,294	$ (2,478)	$ 857	$ 1,164	$ 19,837
Construction, development & other land loans	11,783	—	50	(1,837)	9,996
Commercial real estate - owner occupied	18,163	(30)	4	(278)	17,859
Commercial real estate - non owner occupied	26,252	—	41	(417)	25,876
Multi-family real estate	4,422	—	—	707	5,129
Residential 1-4 family real estate	22,704	(6)	106	2,051	24,855
Home equity loans/lines of credit	3,336	(2)	17	(174)	3,177
Consumer loans	3,113	(141)	123	234	3,329
Total	$ 110,067	$ (2,657)	$ 1,198	$ 1,450	$ 110,058
As of and for the six months ended June 30, 2024					
Commercial and industrial	$ 21,227	$ (4,063)	$ 1,100	$ 1,573	$ 19,837
Construction, development & other land loans	13,940	(79)	147	(4,012)	9,996
Commercial real estate - owner occupied	18,218	(88)	8	(279)	17,859
Commercial real estate - non owner occupied	24,916	(158)	43	1,075	25,876
Multi-family real estate	3,825	—	—	1,304	5,129
Residential 1-4 family real estate	21,396	(6)	227	3,238	24,855
Home equity loans/lines of credit	3,339	(2)	22	(182)	3,177
Consumer loans	2,992	(376)	180	533	3,329
Total	$ 109,853	$ (4,772)	$ 1,727	$ 3,250	$ 110,058

($ in thousands)	Beginning balance	Initial ACL for acquired PCD loans	Charge-offs	Recoveries	Provisions / (Reversals)	Ending balance
As of and for the three months ended June 30, 2023						
Commercial and industrial	$ 23,073	$ —	$ (1,534)	$ 492	$ 1,411	$ 23,442

Construction, development & other land loans	18,986	—	—	158	(667)	18,477
Commercial real estate - owner occupied	16,082	—	—	34	265	16,381
Commercial real estate - non owner occupied	25,990	—	—	38	246	26,274
Multi-family real estate	3,204	—	—	3	739	3,946
Residential 1-4 family real estate	12,285	—	—	79	1,941	14,305
Home equity loans/lines of credit	3,481	—	—	40	196	3,717
Consumer loans	3,295	—	(217)	41	(431)	2,688
Total	$ 106,396	$ —	$ (1,751)	$ 885	$ 3,700	$ 109,230
As of and for the six months ended June 30, 2023						
Commercial and industrial	$ 17,718	$ 5,197	$ (3,711)	$ 766	$ 3,472	$ 23,442
Construction, development & other land loans	15,128	49	—	223	3,077	18,477
Commercial real estate - owner occupied	14,972	191	—	70	1,148	16,381
Commercial real estate - non owner occupied	22,780	51	(235)	432	3,246	26,274
Multi-family real estate	2,957	—	—	7	982	3,946
Residential 1-4 family real estate	11,354	113	—	225	2,613	14,305
Home equity loans/lines of credit	3,158	8	(2)	74	479	3,717
Consumer loans	2,900	1	(424)	77	134	2,688
Total	$ 90,967	$ 5,610	$ (4,372)	$ 1,874	$ 15,151	$ 109,230

Credit Quality Indicators

The Company tracks There have been no material changes from the treatment of credit quality based on its internal risk ratings. Upon origination, a loan is assigned an initial tracking and risk grade which is generally based descriptions as discussed in Note 4 of the Company's Annual Report on several factors such as Form 10-K for the borrower's credit score, the loan-to-value ratio, the debt-to-income ratio, etc. Loans that are risk-graded as substandard during the origination process are declined. After loans are initially graded, they are monitored regularly for credit quality based on many factors, such as payment history, the borrower's financial status, and changes in collateral value. Loans can be downgraded or upgraded depending on management's evaluation of these factors. Internal risk-grading policies are consistent throughout each loan type. year ended December 31, 2023.

The following describes the Company's internal risk grades in ascending order of likelihood of loss:

	Risk Grade	Description
Pass:		
	1	Loans with virtually no risk, including cash secured loans.
	2	Loans with documented significant overall financial strength. These loans have minimum chance of loss due to the presence of multiple sources of repayment – each clearly sufficient to satisfy the obligation.
	3	Loans with documented satisfactory overall financial strength. These loans have a low loss potential due to presence of at least two clearly identified sources of repayment – each of which is sufficient to satisfy the obligation under the present circumstances.
	4	Loans to borrowers with acceptable financial condition. These loans could have signs of minor operational weaknesses, lack of adequate financial information, or loans supported by collateral with questionable value or marketability.
	5	Loans that represent above average risk due to minor weaknesses and warrant closer scrutiny by management. Collateral is generally required and believed to provide reasonable coverage with realizable liquidation values in normal circumstances. Repayment performance is satisfactory.
	P (Pass)	Consumer loans that are of satisfactory credit quality with borrowers who exhibit good personal credit history, average personal financial strength and moderate debt levels. These loans generally conform to Bank policy, but may include approved mitigated exceptions to the guidelines.
Special Mention:		
	6	Existing loans with defined weaknesses in primary source of repayment that, if not corrected, could cause a loss to the Bank.
Classified:		
	7	An existing loan inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt.
	8	Loans that have a well-defined weakness that make the collection or liquidation in full highly questionable and improbable. Loss appears imminent, but the exact amount and timing is uncertain.
	9	Loans that are considered uncollectible and are in the process of being charged-off. This grade is a temporary grade assigned for administrative purposes until the charge-off is completed.
	F (Fail)	Consumer loans with a well-defined weakness, such as exceptions of any kind with no mitigating factors, history of paying outside the terms of the note, insufficient income to support the current level of debt, etc.

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In the tables that follow, substantially all of the "Classified" loans have grades of 7 or Fail, with those categories having similar levels of risk.

The tables below present the Company's recorded investment in loans by credit quality indicators by year of origination or renewal as of the periods indicated. Acquired loans are presented in the year originated, not in the year of acquisition.

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	Term Loans by Year of Origination							
($ in thousands)	2024	2023	2022	2021	2020	Prior	Revolving	Total
As of March 31, 2024								
Commercial and industrial								
Pass	$ 25,321	106,744	143,282	99,028	79,075	110,534	287,258	851,242
Special Mention	—	86	50	1,877	156	1,932	3,114	7,215
Classified	50	84	2,655	617	767	8,967	1,026	14,166
Total commercial and industrial	25,371	106,914	145,987	101,522	79,998	121,433	291,398	872,623
Gross charge-offs, YTD	—	—	255	—	121	215	994	1,585
Construction, development & other land loans								
Pass	32,667	317,237	292,169	91,160	29,049	58,583	77,377	898,242
Special Mention	—	377	891	—	158	3,931	16	5,373

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Classified	1	—	390	—	67	143	—	601
Total construction, development & other land loans	32,668	317,614	293,450	91,160	29,274	62,657	77,393	904,216
Gross charge-offs, YTD	—	79	—	—	—	—	—	79
Commercial real estate - owner occupied								
Pass	14,382	136,686	234,302	247,327	186,254	367,230	15,762	1,201,943
Special Mention	—	740	3,939	4,454	296	12,373	—	21,802
Classified	—	73	1,477	1,549	1,206	10,652	57	15,014
Total commercial real estate - owner occupied	14,382	137,499	239,718	253,330	187,756	390,255	15,819	1,238,759
Gross charge-offs, YTD	—	—	—	—	—	58	—	58
Commercial real estate - non owner occupied								
Pass	18,100	223,154	615,013	703,015	304,502	605,654	28,277	2,497,715
Special Mention	—	—	161	—	—	17,805	1,450	19,416
Classified	—	—	—	658	4,233	2,199	—	7,090
Total commercial real estate - non owner occupied	18,100	223,154	615,174	703,673	308,735	625,658	29,727	2,524,221
Gross charge-offs, YTD	—	—	—	—	—	158	—	158
Multi-family real estate								
Pass	8,262	25,784	118,826	168,105	65,299	46,319	23,876	456,471
Special Mention	—	—	—	—	—	671	—	671
Classified	—	—	—	—	—	—	—	—
Total multi-family real estate	8,262	25,784	118,826	168,105	65,299	46,990	23,876	457,142
Gross charge-offs, YTD	—	—	—	—	—	—	—	—
Residential 1-4 family real estate								
Pass	91,863	275,322	417,272	302,005	179,607	404,016	3,171	1,673,256
Special Mention	—	—	—	31	63	1,471	—	1,565
Classified	262	—	—	462	1,194	7,434	—	9,352
Total residential 1-4 family real estate	92,125	275,322	417,272	302,498	180,864	412,921	3,171	1,684,173
Gross charge-offs, YTD	—	—	—	—	—	—	—	—
Home equity loans/lines of credit								
Pass	233	2,481	833	533	290	2,614	313,602	320,586
Special Mention	—	—	—	122	—	165	17	304
Classified	—	—	—	93	91	285	7,107	7,576
Total home equity loans/lines of credit	233	2,481	833	748	381	3,064	320,726	328,466
Gross charge-offs, YTD	—	—	—	—	—	—	—	—
Consumer loans								
Pass	4,366	14,673	11,269	4,156	1,833	753	29,307	66,357
Special Mention	—	—	—	—	—	—	—	—
Classified	134	23	38	43	—	35	36	309
Total consumer loans	4,500	14,696	11,307	4,199	1,833	788	29,343	66,666
Gross charge-offs, YTD	—	4	16	2	—	—	213	235
Total loans	$ 195,641	1,103,464	1,842,567	1,625,235	854,140	1,663,766	791,453	8,076,266
Unamortized net deferred loan fees								240
Total loans, net of deferred loan fees								8,076,506
Total gross charge-offs, year to date	$ —	83	271	2	121	431	1,207	2,115

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Term Loans by Year of Origination

($ in thousands)

($ in thousands)

($ in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Total	2024	2023	2022	2021	2020	Prior	Revolving	Total
As of December 31, 2023																
As of June 30, 2024																
Commercial and industrial																
Commercial and industrial																
Commercial and industrial																
Pass																
Pass																
Pass																
Special Mention																
Classified																
Total commercial and industrial																
Gross charge-offs, YTD																
Construction, development & other land loans																
Pass																
Pass																
Pass																
Special Mention																
Classified																
Total construction, development & other land loans																
Gross charge-offs, YTD																
Commercial real estate - owner occupied																
Pass																
Pass																
Pass																
Special Mention																
Classified																
Total commercial real estate - owner occupied																
Gross charge-offs, YTD																
Commercial real estate - non owner occupied																
Pass																
Pass																
Pass																
Special Mention																
Classified																
Total commercial real estate - non owner occupied																
Gross charge-offs, YTD																
Multi-family real estate																
Pass																
Pass																
Pass																
Special Mention																
Classified																
Total multi-family real estate																
Gross charge-offs, YTD																
Residential 1-4 family real estate																
Pass																
Pass																
Pass																
Special Mention																

Classified
Total residential 1-4 family real estate
Gross charge-offs, YTD
Home equity loans/lines of credit
Pass
Pass
Pass
Special Mention
Classified
Total home equity loans/lines of credit
Gross charge-offs, YTD
Consumer loans
Pass
Pass
Pass
Special Mention
Classified
Total consumer loans
Gross charge-offs, YTD
Total loans
Total loans
Total loans
Unamortized net deferred loan fees
Total loans, net of deferred loan fees
Unamortized net deferred loan costs/(fees)
Total loans, net of deferred loan costs/(fees)
Total gross charge-offs, year to date
Total gross charge-offs, year to date
Total gross charge-offs, year to date

Index

	Term Loans by Year of Origination							
($ in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Total
As of December 31, 2023								
Commercial and industrial								
Pass	$ 136,735	$ 161,131	$ 111,069	$ 75,312	$ 38,495	$ 60,626	$ 302,684	$ 886,052
Special Mention	2,832	2,547	167	185	448	672	1,135	7,986
Classified	1,626	1,152	720	1,389	1,647	4,487	803	11,824
Total commercial and industrial	141,193	164,830	111,956	76,886	40,590	65,785	304,622	905,862
Gross charge-offs, YTD	171	1,036	713	537	821	1,547	3,533	8,358
Construction, development & other land loans								
Pass	563,998	231,450	90,374	16,662	11,598	5,816	70,852	990,750
Special Mention	489	273	59	—	2	4	19	846
Classified	657	708	—	—	8	11	—	1,384
Total construction, development & other land loans	565,144	232,431	90,433	16,662	11,608	5,831	70,871	992,980
Gross charge-offs, YTD	—	—	—	—	—	120	—	120
Commercial real estate - owner occupied								
Pass	210,449	323,852	299,135	196,343	92,452	86,784	23,198	1,232,213

Special Mention	338	2,533	271	817	5,755	2,253	—	11,967
Classified	4,456	1,505	1,721	895	2,288	3,904	73	14,842
Total commercial real estate - owner occupied	215,243	327,890	301,127	198,055	100,495	92,941	23,271	1,259,022
Gross charge-offs, YTD	—	—	49	—	—	92	3	144
Commercial real estate - non owner occupied								
Pass	509,596	748,854	722,472	287,235	119,515	84,690	29,001	2,501,363
Special Mention	11,353	199	36	393	1,183	5,942	342	19,448
Classified	871	32	14	4,214	634	1,484	—	7,249
Total commercial real estate - non owner occupied	521,820	749,085	722,522	291,842	121,332	92,116	29,343	2,528,060
Gross charge-offs, YTD	—	—	235	—	—	—	—	235
Multi-family real estate								
Pass	57,378	137,533	139,879	43,881	12,231	10,323	20,151	421,376
Special Mention	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—
Total multi-family real estate	57,378	137,533	139,879	43,881	12,231	10,323	20,151	421,376
Gross charge-offs, YTD	—	—	—	—	—	—	—	—
Residential 1-4 family real estate								
Pass	363,410	400,483	317,515	186,459	94,567	260,102	3,247	1,625,783
Special Mention	681	41	202	64	587	1,987	—	3,562
Classified	1,848	50	474	741	472	6,539	—	10,124
Total residential 1-4 family real estate	365,939	400,574	318,191	187,264	95,626	268,628	3,247	1,639,469
Gross charge-offs, YTD	—	—	—	—	—	4	—	4
Home equity loans/lines of credit								
Pass	2,830	1,136	1,141	223	499	1,233	319,199	326,261
Special Mention	163	—	122	—	—	—	18	303
Classified	255	—	146	91	112	10	7,890	8,504
Total home equity loans/lines of credit	3,248	1,136	1,409	314	611	1,243	327,107	335,068
Gross charge-offs, YTD	—	—	—	—	—	—	309	309
Consumer loans								
Pass	16,497	12,906	4,999	2,173	432	429	30,757	68,193
Special Mention	—	—	—	—	—	—	—	—
Classified	130	7	45	—	3	34	31	250
Total consumer loans	16,627	12,913	5,044	2,173	435	463	30,788	68,443
Gross charge-offs, YTD	34	79	73	23	—	1	795	1,005
Total loans	$ 1,886,592	$ 2,026,392	$ 1,690,561	$ 817,077	$ 382,928	$ 537,330	$ 809,400	8,150,280
Unamortized net deferred loan costs/(fees)								(178)
Total loans, net of deferred loan costs/(fees)								$ 8,150,102
Total gross charge-offs, year to date	$ 205	$ 1,115	$ 1,070	$ 560	$ 821	$ 1,764	$ 4,640	$ 10,175

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Loan Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Company modifies loans to borrowers in financial distress as a part of our loss mitigation activities. Various types of modification may be offered including principal forgiveness, term extension, payment delays, or interest rate reductions. In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession may be granted. For loans included in the “combination” columns below, multiple types of modifications have been made on the same loan within the current reporting period.

The followings tables present the amortized cost basis at March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023 of the loans modified during the three and six months then ended for borrowers experiencing financial difficulty, by loan category and type of concession granted.

($ in thousands)

($ in thousands)

($ in thousands)	Payment Delay	Term Extension	Combination - Term Extension and Payment Delay	Combination - Interest Rate Reduction and Term Extension	Total	Percent of Total Class of Loans	Payment Delay	Term Extension	Combination - Term Extension and Payment Delay
As of and for the three months ended March 31, 2024									
As of and for the three months ended June 30, 2024									
Commercial and industrial									
Commercial and industrial									
Commercial and industrial	$ —	$ 1	$ —	$ 96	$ 97	0.01 %			
Residential 1-4 family real estate									
Residential 1-4 family real estate									
Residential 1-4 family real estate	—	203	—	—	203	0.01 %			
Home equity loans/lines of credit	—	290	—	—	290	0.09 %			
Total									
Total									
Total	$ —	$ 494	$ —	$ 96	$ 590	0.01 %			
As of and for the six months ended June 30, 2024									
As of and for the six months ended June 30, 2024									

As of and for the six months ended June 30, 2024

Commercial and industrial																
Commercial and industrial																
Commercial and industrial	$ 114	—	—	878	878	—	—	992	992	0.11	0.11 %	$ 114	$	$ 1	$	$ 878	$
Commercial real estate - non owner occupied																
Commercial real estate - non owner occupied																
Commercial real estate - non owner occupied	—	115	115	—	—	—	—	115	115	—	— %	—	111	111	—	—
Home equity loans/lines of credit																
Home equity loans/lines of credit																
Residential 1-4 family real estate																
Residential 1-4 family real estate																
Residential 1-4 family real estate	—	203	—	—	203	0.01 %										
Home equity loans/lines of credit	—	47	47	—	—	179	179	226	226	0.07	0.07 %	Home equity loans/lines of credit	—	323	323	—	-
Total																
Total																
Total	$ 114	162	162	878	878	179	179	1,333	1,333	0.02	0.02 %	$ 114	$	$ 638	$	$ 878	$

($ in thousands)

($ in thousands)

($ in thousands)	Payment Delay	Term Extension	Combination - Interest Rate Reduction and Term Extension	Total	Percent of Total Class of Loans	Payment Delay	Term Extension	Combination - Interest Rate Reduction and Term Extension

As of and for the three months ended March 31, 2023

As of and for the three months ended June 30, 2023

Commercial and industrial					
Commercial and industrial					
Commercial and industrial	$ 1,363	$ 30	$ —	$ 1,393	0.16 %
Commercial real estate - owner occupied					
Commercial real estate - owner occupied					
Commercial real estate - owner occupied	188	287	—	475	0.04 %
Residential 1-4 family real estate					
Residential 1-4 family real estate					
Residential 1-4 family real estate	—	469	—	469	0.03 %
Home equity loans/lines of credit	—	1,317	—	1,317	0.39 %
Total					
Total					
Total	$ 1,551	$ 2,103	$ —	$ 3,654	0.05 %

As of and for the six months ended June 30, 2023

As of and for the six months ended June 30, 2023

As of and for the six months ended June 30, 2023

Commercial and industrial																		
Commercial and industrial																		
Commercial and industrial		$ 156	1,442	1,442	—	—	1,598	1,598	0.18	0.18 %		$1,513	$	$ 105	$	$—	$	$
Construction, development & other land loans	Construction, development & other land loans	—	130	130	14	14	144	144	0.01	0.01 %	Construction, development & other land loans	—	502		502	12	12	
Commercial real estate - non owner occupied																		
Commercial real estate - non owner occupied																		
Commercial real estate - owner occupied		188	287	—	475	0.04 %												
Commercial real estate - non owner occupied		—	104	104	—	—	104	104	—	— %	Commercial real estate - non owner occupied	—	96		96	—	—	
Residential 1-4 family real estate																		

Residential 1-4 family real estate																	
Residential 1-4 family real estate		—	48	48	—	—	48	48	—	— %		—	515	515	—	—	515
Home equity loans/lines of credit	Home equity loans/lines of credit	—	103	103	—	—	103	103	0.03	0.03 %	Home equity loans/lines of credit	—	1,416	1,416	—	—	1
Consumer loans	Consumer loans	—	228	228	—	—	228	228	0.34	0.34 %	Consumer loans	—	228	228	—	—	
Total	Total	$ 156	2,055	2,055	14	14	2,225	2,225	0.03	0.03 %	Total	$ 1,701	$	$ 3,149	$	$ 12	$

For the three and six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023, there were no modifications for borrowers experiencing financial difficulty with principal forgiveness concessions.

The following table describes the financial effect for the three months ended March 31, 2024 of the modifications made for borrowers experiencing financial difficulty:

	Financial Effect of Modification to Borrowers Experiencing Financial Difficulty		
	Weighted Average Interest Rate Reduction	Weighted Average Payment Delay (in months)	Weighted Average Term Extension (in months)
For the three months ended March 31, 2024			
Commercial and industrial	—%	36	12
Commercial real estate - non owner occupied	—%	0	13
Home equity loans/lines of credit	2.09%	0	32

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The following table describes the financial effect for the three and six months ended March 31, 2023 June 30, 2024 of the modifications made for borrowers experiencing financial difficulty:

Financial Effect of Modification to Borrowers Experiencing Financial Difficulty

Financial Effect of Modification to Borrowers Experiencing Financial Difficulty

Financial Effect of Modification to Borrowers Experiencing Financial Difficulty

	Weighted Average Interest Rate Reduction	Weighted Average Interest Rate Reduction	Weighted Average Payment Delay (in months)	Weighted Average Term Extension (in months)	Weighted Average Interest Rate Reduction	Weighted Average Payment Delay (in months)	Weighted Average Term Extension (in months)
For the three months ended March 31, 2023							
For the three months ended June 30, 2024							
Commercial and industrial							
Commercial and industrial							
Commercial and industrial	—%	4	6	0.75%	0	27	
Construction, development & other land loans	1.50%	0	11				

Residential 1-4 family real estate								
Residential 1-4 family real estate								
Residential 1-4 family real estate		—%	0	103				
Home equity loans/lines of credit		—%	0	95				
<u>For the six months ended June 30, 2024</u>								
<u>For the six months ended June 30, 2024</u>								
<u>For the six months ended June 30, 2024</u>								
Commercial and industrial								
Commercial and industrial								
Commercial and industrial		0.75%	36	13				
Commercial real estate - non owner occupied								
Commercial real estate - non owner occupied								
Commercial real estate - non owner occupied		—%	0	12		—%	0	13
Residential 1-4 family real estate								
Residential 1-4 family real estate								
Residential 1-4 family real estate		—%	0	14		—%	0	103
Home equity loans/lines of credit	Home equity loans/lines of credit	—%	0	46	Home equity loans/lines of credit	2.10%	0	69
Consumer loans		—%	0	3				

The following table describes the financial effect for the three and six months ended June 30, 2023 of the modifications made for borrowers experiencing financial difficulty:

	Financial Effect of Modification to Borrowers Experiencing Financial Difficulty		
	Weighted Average Interest Rate Reduction	Weighted Average Payment Delay (in months)	Weighted Average Term Extension (in months)
<u>For the three months ended June 30, 2023</u>			
Commercial and industrial	—%	2	25
Commercial real estate - owner occupied	—%	12	49
Residential 1-4 family real estate	—%	0	25
Home equity loans/lines of credit	—%	0	42
<u>For the six months ended June 30, 2023</u>			
Commercial and industrial	—%	2	13
Construction, development & other land loans	1.50%	0	7
Commercial real estate - owner occupied	—%	12	49
Commercial real estate - non owner occupied	—%	0	15
Residential 1-4 family real estate	—%	0	24
Home equity loans/lines of credit	—%	0	40
Consumer loans	—%	0	6

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The Company closely monitors the performance of the loans that are modified for borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been were modified in the last 12 twelve months as of March 31, 2024 June 30, 2024:

Payment Status (Amortized Cost Basis)

($ in thousands)	($ in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	($ in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due
Commercial and industrial										
Construction, development & other land loans										
Commercial real estate - owner occupied										
Commercial real estate - non owner occupied										
Residential 1-4 family real estate										
Residential 1-4 family real estate										
Residential 1-4 family real estate										
Home equity loans/lines of credit										
Consumer loans										
		$								
		$								
		$								

The following table depicts the performance of loans that have been were modified in the last 12 twelve months as of December 31, 2023:

		Payment Status (Amortized Cost Basis)								
($ in thousands)	($ in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	($ in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due
Commercial and industrial										
Construction, development & other land loans										
Commercial real estate - owner occupied										
Commercial real estate - non owner occupied										
Residential 1-4 family real estate										
Residential 1-4 family real estate										
Residential 1-4 family real estate										
Home equity loans/lines of credit										
Consumer loans										
		$								

None of the modifications made for borrowers experiencing financial difficulty during the three and six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023 are considered to have had a payment default.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the ACL is adjusted by the same amount.

Concentration of Credit Risk

Most of the Company's business activity is with customers located within the markets where it has banking operations. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy within its markets. Approximately 88% of the Company's loan portfolio is secured by real estate and is therefore susceptible to changes in real estate valuations. There have been no material changes to the primary loan markets (as identified by counties) from year end.

Allowance for Unfunded Loan Commitments

In addition to the ACL on loans, the Company maintains an allowance for lending-related commitments such as unfunded loan commitments and letters of credit. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for lending-related commitments on off-balance sheet credit exposures is adjusted as a provision for unfunded commitments expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the ACL on loans. The

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allowance for unfunded loan commitments of $10.8 million $9.9 million and $11.4 million at March 31, 2024 June 30, 2024 and December 31, 2023, respectively, were separately classified on the consolidated balance sheets within "Other liabilities."

The following table presents the balance and activity in the allowance for unfunded loan commitments for the three six months ended March 31, 2024 June 30, 2024 and 2023 and for the twelve months ended December 31, 2023: 2023:

($ in thousands)

($ in thousands)

($ in thousands)	*($ in thousands)*	March 31, 2024	December 31, 2023	March 31, 2023	June 30, 2024	June 30, 2023
Beginning balance						
Initial provision for credit losses on unfunded commitments acquired from GrandSouth						
Charge-offs						
Recoveries						
Reversal of provision for unfunded commitments						
Ending balance						

Allowance for Credit Losses - Securities Held to Maturity

The ACL for securities held to maturity was insignificant at March 31, 2024 June 30, 2024 and December 31, 2023.

Note 5. Goodwill, and Other Intangible Assets and Servicing Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets and the carrying amount of unamortized intangible assets as of the periods presented.

	March 31, 2024			December 31, 2023		
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortizable intangible assets:						
Customer lists	$ 2,700	2,247	453	2,700	2,167	533
Core deposit intangibles	57,890	30,605	27,285	57,890	28,932	28,958
Other intangibles	100	89	11	100	83	17
Intangibles before servicing assets	60,690	32,941	27,749	60,690	31,182	29,508
SBA servicing assets	14,190	11,053	3,137	13,966	10,616	3,350
Total amortizable intangible assets	$ 74,880	43,994	30,886	74,656	41,798	32,858
Unamortizable intangible assets:						
Goodwill	$ 478,750			478,750		

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	June 30, 2024			December 31, 2023		
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortizable intangible assets:						
Customer lists	$ 1,600	$ 1,227	$ 373	$ 2,700	$ 2,167	$ 533
Core deposit intangibles	57,890	32,187	25,703	57,890	28,933	28,957
Other intangibles	100	96	4	100	83	17

Total amortizable intangible assets	$ 59,590	$ 33,510	$ 26,080	$ 60,690	$ 31,183	$ 29,507
Unamortizable intangible assets:						
Goodwill	$ 478,750			$ 478,750		

Customer lists are generally amortized over five years and core deposit intangibles are generally amortized over 10 years, both at an accelerated rate.

Amortization expense of all other amortizable intangible assets excluding the SBA servicing assets, totaled $1.8 million $1.7 million and $2.1 million $2.0 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively.

During respectively, and $3.4 million and $4.2 million for the three six months ended March 31, 2024 June 30, 2024 and 2023, the Company recorded $0.7 million and $1.0 million, respectively in SBA guaranteed servicing fee income. There was no impairment of SBA servicing assets at March 31, 2024 and December 31, 2023 and no significant changes in fair value assumptions from year end.

The following table presents the changes in the SBA servicing assets and SBA servicing income for the three months ended March 31, 2024 and 2023.

	Three months ended March 31,	
	2024	2023
Beginning balance, net	$ 3,350	4,004
Add: New servicing assets	224	77
Less: Amortization expense and impairment charges	437	184
Ending balance, net	$ 3,137	3,897

respectively.

Goodwill is evaluated for impairment on at least an annual basis, with the annual evaluation occurring as of October 31 of each year. Goodwill is also evaluated for impairment any time there is a triggering event indicating that impairment may have occurred. No triggering events were identified during 2024 to date and, therefore, the Company did not perform interim impairment evaluations. The Company's most recent evaluation of goodwill, which occurred in the fourth quarter of 2023, indicated that there was no goodwill impairment. There was no change to carrying amounts of goodwill during the first quarter of 2024.

The following table presents the estimated amortization expense schedule related to acquisition-related amortizable intangible assets, excluding the SBA servicing assets. These amounts will be recorded as "Intangibles amortization expense" within the noninterest expense section of the consolidated statements of income. These estimates are subject to change in future periods

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to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortized amortizable intangible assets.

($ in thousands)	*($ in thousands)*	Estimated Amortization Expense	*($ in thousands)*	Estimated Amortization Expense
April 1, 2024 to December 31, 2024				
July 1, 2024 to December 31, 2024				
2025				
2026				
2027				
2028				
Thereafter				
Total				

The Company recorded SBA guaranteed servicing fee income of $0.8 million and $0.9 million for the three months ended June 30, 2024 and 2023, respectively, and $1.5 million and $1.8 million for the six months ended June 30, 2024 and 2023, respectively. There was no impairment of SBA servicing assets at June 30, 2024 and December 31, 2023 and no significant changes in fair value assumptions from year end.

The following table presents the changes in the SBA servicing assets (included in "Other assets" in the Company's consolidated balance sheet) for the three and six months ended June 30, 2024 and 2023:

	Three months ended June 30,		Six months ended June 30,	
($ in thousands)	2024	2023	2024	2023
Beginning balance, net	$ 3,137	$ 3,897	$ 3,350	$ 4,004
Add: New servicing assets	319	195	543	271

Less: Amortization expense and impairment charges	453	311	890	494
Ending balance, net	$ 3,003	$ 3,781	$ 3,003	$ 3,781

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Note 6. Borrowings

The following tables present information regarding the Company's outstanding borrowings at March 31, 2024 June 30, 2024 and December 31, 2023 (dollars in thousands):

Description	Description	Due date	Call Feature	Balance at March 31, 2024		Interest Rate		Description	Due date	Call Feature	Balance at June 30, 2024		Interest Rate
FHLB Principal Reducing Credit	FHLB Principal Reducing Credit	6/26/2028	None	$ 200	0.25% fixed		0.25% fixed						
FHLB Principal Reducing Credit	FHLB Principal Reducing Credit	7/17/2028	None	29	0.00% fixed		0.00% fixed						
FHLB Principal Reducing Credit	FHLB Principal Reducing Credit	8/18/2028	None	148	1.00% fixed		1.00% fixed		6/26/2028 to 12/20/2028	None	$ 826	0.00% to 1.00% fixed	0.00% to 1.00% fixed
FHLB Principal Reducing Credit		8/22/2028	None	149		1.00% fixed							
FHLB Principal Reducing Credit		12/20/2028	None	312		0.50% fixed							
FRB Bank Term Funding Program		12/20/2024	None	174,000		4.85% fixed							
FRB Bank Term Funding Program		12/27/2024	None	25,000		4.83% fixed							
FRB Bank Term Funding Program		1/10/2025	None	32,000		4.81% fixed							
Trust Preferred Securities	Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	8.23% at 3/31/24 adjustable rate 3 month CME Term SOFR+ 2.91%		8.23% at 3/31/24 adjustable rate 3 month CME Term SOFR+ 2.91%	Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	8.24% at 6/30/24 adjustable rate 3 month CME Term SOFR+ 2.91%	8.24% at 6/30/24 adjustable rate 3 month CME Term SOFR+ 2.91%
Trust Preferred Securities	Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	8.33% at 3/31/24 adjustable rate 3 month CME Term SOFR + 3.01%		8.33% at 3/31/24 adjustable rate 3 month CME Term SOFR + 3.01%	Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	8.34% at 6/30/24 adjustable rate 3 month CME Term SOFR + 3.01%	8.34% at 6/30/24 adjustable rate 3 month CME Term SOFR + 3.01%

Trust Preferred Securities	Trust Preferred Securities	9/20/2034	Quarterly by Company beginning 9/20/2009		12,372	7.74% at 3/31/24 adjustable rate 3 month CME Term SOFR + 2.41%	7.74% at 3/31/24 adjustable rate 3 month CME Term SOFR + 2.41%	Trust Preferred Securities	9/20/2034	Quarterly by Company beginning 9/20/2009		12,372	7.76% at 6/30/24 adjustable rate 3 month CME Term SOFR + 2.41%		7.76% at 6/30/24 adjustable rate 3 month CME Term SOFR + 2.41%
Trust Preferred Securities	Trust Preferred Securities	1/7/2035	Quarterly by Company beginning 1/7/2010		10,310	7.58% at 3/31/24 adjustable rate 3 month CME Term SOFR + 2.00%	7.58% at 3/31/24 adjustable rate 3 month CME Term SOFR + 2.00%	Trust Preferred Securities	1/7/2035	Quarterly by Company beginning 1/7/2010		10,310	7.59% at 6/30/24 adjustable rate 3 month CME Term SOFR + 2.00%		7.59% at 6/30/24 adjustable rate 3 month CME Term SOFR + 2.00%
Trust Preferred Securities	Trust Preferred Securities	6/15/2036	Quarterly by Company beginning 6/15/2011		25,774	6.98% at 3/31/24 adjustable rate 3 month CME Term SOFR + 1.65%	6.98% at 3/31/24 adjustable rate 3 month CME Term SOFR + 1.65%	Trust Preferred Securities	6/15/2036	Quarterly by Company beginning 6/15/2011		25,774	6.99% at 6/30/24 adjustable rate 3 month CME Term SOFR + 1.65%		6.99% at 6/30/24 adjustable rate 3 month CME Term SOFR + 1.65%
Trust Preferred Securities	Trust Preferred Securities	6/23/2036	Quarterly by the Company beginning 6/23/2011		8,248	7.43% at 3/31/24 adjustable rate 3 month CME Term SOFR + 2.11%	7.43% at 3/31/24 adjustable rate 3 month CME Term SOFR + 2.11%	Trust Preferred Securities	6/23/2036	Quarterly by the Company beginning 6/23/2011		8,248	7.46% at 6/30/24 adjustable rate 3 month CME Term SOFR + 2.11%		7.46% at 6/30/24 adjustable rate 3 month CME Term SOFR + 2.11%
Subordinated Debentures	Subordinated Debentures	11/30/2028	Continuous by Company beginning 11/30/2023		10,000	8.99% at 3/31/24 adjustable rate 3 month CME Term SOFR + 3.69%	8.99% at 3/31/24 adjustable rate 3 month CME Term SOFR + 3.69%	Subordinated Debentures	11/15/2030	Continuous by Company beginning 11/15/2025		18,000	4.38% fixed		4.38% fixed
Subordinated Debentures		11/15/2030	Continuous by Company beginning 11/15/2025		18,000		4.38% fixed								
Total borrowings / weighted average rate as of March 31, 2024				337,162		5.56%									
Total borrowings / weighted average rate as of June 30, 2024				96,150		6.93%									
Unamortized discount on acquired borrowings															
Total borrowings															
Total borrowings															
Total borrowings															

During the first and second quarters of 2024, the Company redeemed borrowings under the FRB Bank Term Funding Program totaling $18.0 million and $231.0 million, respectively. Also during the second quarter, the Company redeemed $10.0 million of subordinated debentures.

Description	Due date	Call Feature	Balance at December 31, 2023	Interest Rate
FHLB Principal Reducing Credit	6/26/2028	None	$ 203	0.25% fixed
FHLB Principal Reducing Credit	7/17/2028	None	31	0.00% fixed
FHLB Principal Reducing Credit	8/18/2028	None	151	1.00% fixed
FHLB Principal Reducing Credit	8/22/2028	None	151	1.00% fixed
FHLB Principal Reducing Credit	12/20/2028	None	315	0.50% fixed
FHLB Fixed Rate Credit	1/16/2024	None	80,000	5.59% fixed
FHLB Fixed Rate Credit	2/27/2024	None	100,000	5.61% fixed
FHLB Fixed Rate Credit	3/20/2024	None	100,000	5.61% fixed
FRB Bank Term Funding Program	12/20/2024	None	224,000	4.85% fixed
FRB Bank Term Funding Program	12/27/2024	None	25,000	4.83% fixed
Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	8.30% at 12/31/23 adjustable rate 3 month CME Term SOFR + 2.91%
Trust Preferred Securities	1/23/2034	Quarterly by Company beginning 1/23/2009	10,310	8.40% at 12/31/23 adjustable rate 3 month CME Term SOFR + 3.01%
Trust Preferred Securities	9/20/2034	Quarterly by Company beginning 9/20/2009	12,372	7.78% at 12/31/23 adjustable rate 3 month CME Term SOFR + 2.41%
Trust Preferred Securities	1/7/2035	Quarterly by Company beginning 1/7/2010	10,310	7.66% at 12/31/23 adjustable rate 3 month CME Term SOFR + 2.00%
Trust Preferred Securities	6/15/2036	Quarterly by Company beginning 6/15/2011	25,774	7.04% at 12/31/23 adjustable rate 3 month CME Term SOFR + 1.65%
Trust Preferred Securities	6/23/2036	Quarterly by Company beginning 6/23/2011	8,248	7.47% at 12/31/23 adjustable rate 3 month CME Term SOFR + 2.11%
Subordinated Debentures	11/30/2028	Continuous by Company beginning 11/30/2023	10,000	9.09% at 12/31/23 adjustable rate 3 month CME Term SOFR + 3.69%
Subordinated Debentures	11/15/2030	Continuous by Company beginning 11/15/2025	18,000	4.38% fixed
Total borrowings / weighted average rate as of December 31, 2023			635,175	5.57%
Unamortized discount on acquired borrowings			(5,017)	
Total borrowings			$ 630,158	

Note 7. Leases

The Company enters into leases in the normal course of business. As of March 31, 2024 June 30, 2024, the Company leased 16 14 bank branch offices for which the land and buildings are leased and ten branch offices for which the land is leased but the buildings are owned. The Company also leases office space for several operational departments. The lease agreements have maturity dates ranging from July November 2024 through May 2076, some of which include options for multiple five- and ten-year extensions. The weighted average remaining life of the lease term for these leases was 19.9 20.9 years as of March 31, 2024 June 30, 2024. Certain of the Company's lease agreements include variable lease payments based on changes in inflation, with the impact of that factor being insignificant to the Company's total lease expense. As permitted by applicable accounting standards, the Company has elected not to recognize leases with original lease terms of twelve 12 months or less (short-term leases) on the Company's consolidated balance sheets. The short-term lease cost for each period presented was insignificant.

Leases are classified as either operating or finance leases at the lease commencement date and all of the Company's leases have been determined to be operating leases. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the applicable lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's 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, on a collateralized basis, at lease commencement to calculate the present value of lease payments when the rate implicit in the lease is not known. The weighted average discount rate rates for leases was 3.22% were 3.30% and 3.19% as of March 31, 2024 June 30, 2024 and December 31, 2023, respectively.

The right-of-use assets, included in "Other assets" on the Company's consolidated balance sheet, and lease liabilities, included in "Other liabilities" on the Company's consolidated balance sheet, were $16.6 million $14.6 million and $17.3 million $15.3 million as of March 31, 2024 June 30, 2024, respectively, and were $17.1 million and $17.8 million as of December 31, 2023, respectively.

Total operating lease expenses, included in "Other operating expenses" in the Company's consolidated statement of income, were $0.7 million $0.5 million and $0.8 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, and $1.2 million and $1.5 million for the six months ended June 30, 2024 and 2023, respectively.

Future undiscounted lease payments for operating leases with initial terms of greater than one year as of March 31, 2024 June 30, 2024 are as follows:

($ in thousands)
April 1, 2024 to December 31, 2024
April 1, 2024 to December 31, 2024
April 1, 2024 to December 31, 2024
July 1, 2024 to December 31, 2024
July 1, 2024 to December 31, 2024
July 1, 2024 to December 31, 2024
2025
2026
2027
2028
Thereafter
Total undiscounted lease payments
Less effect of discounting
Present value of estimated lease payments (lease liability)

Note 8. Pension Plans

The Company sponsors a Supplemental Executive Retirement Plan (the “SERP”) which was historically for the benefit of certain senior management executives of the Company. Effective December 31, 2012, the Company froze the SERP for all participants. Although no previously accrued benefits were lost, no additional accruals of benefits under this plan for service subsequent to 2012 have been made.

During 2023, the Company terminated its qualified retirement plan (the "Pension Plan") which had previously been available to all employees, although the Pension Plan had been frozen with accrual of benefits discontinued in 2012. In the fourth quarter of 2023, the Pension Plan settled benefits through lump-sum payments of approximately $9.2 million to eligible participants electing that option and purchased annuity contracts from One America (the "Insurer") which irrevocably transferred to the Insurer approximately $19.5 million of the Pension Plan's obligations and related assets, thereby reducing the Pension Plan's obligations at December 31, 2023 to zero. The Insurer will administer all future payments to remaining participants of the Pension Plan.

The Company recorded periodic pension cost totaling $63,000 and $51,000 $50,000 for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively. The following table contains respectively, and $126,000 and $101,000 for the components of the pension cost:

	Three Months Ended March 31, 2024
($ in thousands)	SERP
Service cost	$ —
Interest cost	38
Expected return on plan assets	—
Amortization of net loss	25
Net periodic pension cost	$ 63

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	Three Months Ended March 31, 2023		
($ in thousands)	Pension Plan	SERP	Total Both Plans
Service cost	$ —	—	—

Interest cost	267	28	295
Expected return on plan assets	(288)	—	(288)
Amortization of net loss (gain)	180	(136)	44
Net periodic pension cost	$ 159	(108)	51

The service cost component of net periodic pension cost is included in salaries six months ended June 30, 2024 and benefits expense and all other components of net periodic pension cost are included in other noninterest expense.

The Company's funding policy with respect to the SERP is to fund the related benefits from the operating cash flow of the Company. 2023, respectively.

Note 9. Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal and 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 value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of 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; or other inputs that are observable or can be corroborated by observable market data.

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

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at March 31, 2024:

($ in thousands) Description of Financial Instruments	Fair Value at March 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
U.S. Treasury	$ 123,770	—	123,770	—
Government-sponsored enterprise securities	59,959	—	59,959	—
Mortgage-backed securities	1,886,949	—	1,886,949	—
Corporate bonds	17,805	—	17,805	—
Total available for sale securities	$ 2,088,483	—	2,088,483	—
Derivative financial assets	$ —	—	—	—
Presold mortgages in process of settlement	$ 6,703	—	6,703	—
Derivative financial liabilities	$ 30	—	30	—
Nonrecurring				
Individually evaluated loans	$ 4,638	—	—	4,638

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The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at June 30, 2024:

($ in thousands) Description of Financial Instruments	Fair Value at June 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring				
Securities available for sale:				
Government-sponsored enterprise securities	$ 60,127	$ —	$ 60,127	$ —
Mortgage-backed securities	1,789,243	—	1,789,243	—

Corporate bonds	17,841	—	17,841	—
Total available for sale securities	$ 1,867,211	$ —	$ 1,867,211	$ —
Derivative financial assets	$ 69	$ —	$ 69	$ —
Presold mortgages in process of settlement	$ 7,247	$ —	$ 7,247	$ —
Derivative financial liabilities	$ 70	$ —	$ 70	$ —
Nonrecurring				
Individually evaluated loans	$ 4,561	$ —	$ —	$ 4,561

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring and nonrecurring basis at December 31, 2023:

($ in thousands) Description of Financial Instruments	*($ in thousands)* Description of Financial Instruments	Fair Value 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)	*($ in thousands)* Description of Financial Instruments	Fair Value 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)
Recurring										
Securities available for sale:										
Securities available for sale:										
Securities available for sale:										
US Treasury securities										
US Treasury securities										
US Treasury securities										
Government-sponsored enterprise securities										
Mortgage-backed securities										
Corporate bonds										
Total available for sale securities										
Derivative financial assets										
Derivative financial assets										
Derivative financial assets										
Presold mortgages in process of settlement										
Presold mortgages in process of settlement										
Presold mortgages in process of settlement										
Derivative financial liabilities										
Derivative financial liabilities										
Derivative financial liabilities										
Nonrecurring										
Nonrecurring										
Nonrecurring										
Individually evaluated loans										
Individually evaluated loans										
Individually evaluated loans										

The following is a description of the valuation methodologies used for financial instruments measured at fair value.

Securities Available for Sale — When quoted market prices are available in an active market, the securities are classified as Level 1 in the valuation hierarchy. If quoted market prices are not available, but fair values can be estimated by observing quoted prices of securities with similar characteristics, the securities are classified as Level 2 on the valuation hierarchy. Most of the fair values for the Company's Level 2 securities are determined by the Company's third-party bond accounting provider using matrix pricing. Matrix pricing is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. For the Company, Level 2 securities include mortgage-backed securities, commercial mortgage-backed obligations, government-sponsored enterprise securities, and corporate bonds. In cases where Level 1 or Level 2 inputs are not available, securities may be classified within Level 3 of the hierarchy.

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The Company reviews the pricing methodologies utilized by the bond accounting provider to ensure the fair value determination is consistent with the applicable accounting guidance and that the investments are properly classified in the fair value hierarchy.

*Presold Mortgages in Process of Settlemen*t - The fair value is based on the committed price that an investor has agreed to pay for the loan which is considered a Level 2 input.

Derivative financial assets and liabilities - The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. These are considered a Level 2 input.

Individually evaluated loans — Fair values for individually evaluated loans are measured on a non-recurring basis and are based on the underlying collateral values securing the loans, adjusted for estimated selling costs, or the net present value of the cash flows expected to be received for such loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is generally determined by third-party appraisers using an income or market valuation approach based on an appraisal conducted by an independent, licensed third party appraiser (Level 3). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower's financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Appraisals used in this analysis are generally obtained at least annually based on when the loans

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first became impaired, and thus the appraisals are not necessarily as of the period ends presented. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the consolidated statements of income.

For Level 3 assets and liabilities measured at fair value on a non-recurring basis as of March 31, 2024 June 30, 2024, the significant unobservable inputs used in the fair value measurements were as presented in the tables below:

($ in thousands)	*($ in thousands)*	Fair Value at March 31, 2024		Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)	*($ in thousands)*		Fair Value at June 30, 2024		Valuation Technique		Significant Unobservable Inputs		Range (Weighted Average)
Individually evaluated loans - collateral-dependent	Individually evaluated loans - collateral-dependent	$ 4,638	Appraised value	Appraised value	Discounts applied for estimated costs to sell	10%		Individually evaluated loans - collateral-dependent	$ 4,561	Appraised value		Appraised value		Discounts applied for estimated costs to sell	

For Level 3 assets and liabilities measured at fair value on a non-recurring basis as of December 31, 2023, the significant unobservable inputs used in the fair value measurements were as follows:

($ in thousands)	Fair Value at December 31, 2023	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Individually evaluated loans - collateral-dependent	$ 1,953	Appraised value	Discounts applied for estimated costs to sell	10%

In the above tables, weighted average discounts were calculated on relative fair value for underlying loans based on the range of discount rates applied. The discount applied for estimated costs to sell collateral on individually evaluated loans was 10%.

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The carrying amounts and estimated fair values of financial instruments not carried at fair value at March 31, 2024 June 30, 2024 and December 31, 2023 were as follows:

($ in thousands)	($ in thousands)	Level in Fair Value Hierarchy	March 31, 2024 Carrying Amount	March 31, 2024 Estimated Fair Value	December 31, 2023 Carrying Amount	December 31, 2023 Estimated Fair Value	($ in thousands)	Level in Fair Value Hierarchy	June 30, 2024 Carrying Amount	June 30, 2024 Estimated Fair Value	December 31, 2023 Carrying Amount	December 31, 2023 Estimated Fair Value
Cash and due from banks, noninterest-bearing												
Due from banks, interest-bearing												
Securities held to maturity												
Total loans, net of allowance												
Total loans, net of allowance												
Total loans, net of allowance												
Accrued interest receivable												
Bank-owned life insurance												
SBA Servicing Asset												
Demand deposits, money market and savings												
Demand deposits, money market and savings												
Demand deposits, money market and savings												
Time deposits												
Borrowings												
Accrued interest payable												

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no highly liquid market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include net premises and equipment, intangible and other assets such as deferred income taxes, prepaid expense

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accounts, income taxes currently payable, and other various accrued expenses. In addition, the income tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Note 10. Stock-Based Compensation

The Company recorded total stock-based compensation expense of $0.7 million $0.9 million and $1.1 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, which is and $1.6 million and $2.2 million for the six months ended June 30, 2024 and 2023, respectively. These amounts are included in "Total personnel expense" on the accompanying consolidated statements of income.

The Company recognized $153,000 and $259,000 of income tax benefits related to stock-based compensation expense in its income statement of $218,000 and $261,000for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively and $371,000 and $520,000 for the six months ended June 30, 2024 and 2023, respectively.

At March 31, 2024 June 30, 2024, the sole equity-based compensation plan of the Company was the First Bancorp 2014 2024 Equity Plan (the "Equity Plan"), which was approved by shareholders on May 8, 2014 May 31, 2024. As of March 31, 2024 June 30, 2024, the Equity Plan had 191,593 1,976,567 shares remaining available for grant. During the quarter, the First Bancorp 2014 Equity Plan expired and was replaced by the Equity Plan.

The Equity Plan is intended to serve as a means to attract, retain, and motivate key employees and directors and to associate the interests of the Equity Plan's participants with those of the Company and its shareholders. The Equity Plan allows for both grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted and unrestricted stock, restricted performance stock, and performance units. For the

last several years, the only equity-based compensation granted by the Company has been shares of restricted stock, as it relates to employees, and unrestricted stock as it relates to non-employee directors.

Recent restricted stock awards There have been no material changes to employees typically include service-related vesting conditions only. Compensation expense for these grants is recorded over the requisite service periods. Upon forfeiture, any previously recognized compensation cost is reversed. Upon a change in control (as defined in the Equity Plan), unless the awards remain outstanding or substitute equivalent awards are provided, the awards become immediately vested.

Certain of the Company's equity grants contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period. The Company recognizes compensation expense for awards with graded vesting schedules on a straight-line basis over the requisite service period for each incremental award. Compensation expense is based on the estimated number treatment of stock awards that will ultimately vest. Over and equity grants as discussed in Note 15 of the past five years, there have been insignificant amounts of forfeitures, and therefore Company's Annual Report on Form 10-K for the Company assumes that all awards granted with service conditions will vest. The Company recognizes forfeitures as they occur. year ended December 31, 2023.

In addition to employee equity awards, the Company's practice is to grant unrestricted common shares to each non-employee director (currently 14 twelve in total) in June of each year. The grants was were valued at approximately $37,500 in 2023 and is expected to be the same in 2024. Compensation expense associated with these director awards is fully recognized on by the date of the award since there are no vesting conditions.

The following table presents information regarding the activity for the first three six months of 2024 related to the Company's outstanding restricted stock awards:

Long-Term Restricted Stock Awards	Number of Units	Weighted-Average Grant-Date Fair Value	Long-Term Restricted Stock Awards	Number of Units	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2024					
Granted during the period					
Vested during the period					
Forfeited or expired during the period					
Nonvested at March 31, 2024					
Nonvested at June 30, 2024					

Total unrecognized compensation expense as of March 31, 2024 June 30, 2024 amounted to $4.6 million $3.9 million with a weighted average remaining term of 1.7 1.5 years. For the nonvested awards that were outstanding at March 31, 2024 June 30, 2024, the Company

expects to record $3.0 million $2.6 million in compensation expense in the next twelve 12 months, $2.6 million $1.7 million of which is expected to be recorded in the remaining quarters of 2024.

Note 11. Earnings Per Share

The following is a reconciliation of the numerators and denominators used in computing Basic and Diluted Earnings Per Common Share ("EPS"):

	For the Three Months Ended March 31,		For the Three Months Ended June 30,	
	2024	2023	2024	2023

($ in thousands except per share amounts)	($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:														
Net income														
Net income														
Net income														
Less: income allocated to restricted stock														
Less: income allocated to restricted stock														
Less: income allocated to restricted stock														
Basic EPS per common share														
Basic EPS per common share														
Basic EPS per common share														
Diluted EPS:														
Diluted EPS:														
Diluted EPS:														
Net income														
Net income														
Net income														
Effect of dilutive securities														
Effect of dilutive securities														
Effect of dilutive securities														
Diluted EPS per common share														
Diluted EPS per common share														
Diluted EPS per common share														

	For the Six Months Ended June 30,					
	2024			2023		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:						
Net income						
Net income						
Net income						
Less: income allocated to restricted stock						
Less: income allocated to restricted stock						
Less: income allocated to restricted stock						
Basic EPS per common share						
Basic EPS per common share						

Basic EPS per common share
Diluted EPS:
Diluted EPS:
Diluted EPS:
Net income
Net income
Net income
Effect of dilutive securities
Effect of dilutive securities
Effect of dilutive securities
Diluted EPS per common share
Diluted EPS per common share
Diluted EPS per common share

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Note 12. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) ("AOCI") for the Company are for the periods shows were as follows:

($ in thousands)	*($ in thousands)*	March 31, 2024	December 31, 2023	*($ in thousands)*	June 30, 2024	December 31, 2023
Unrealized loss on securities available for sale						
Deferred tax asset						
Net unrealized loss on securities available for sale						
Postretirement plans liability						
Postretirement plans liability						
Postretirement plans liability						
Deferred tax asset						
Net postretirement plans liability						
Total accumulated other comprehensive loss						
Total accumulated other comprehensive loss						
Total accumulated other comprehensive loss						

The following tables disclose the changes in AOCI for the three and six months ended March 31, 2024 June 30, 2024 and 2023 (all amounts are net of tax):

	For the Three Months Ended March 31, 2024			For the Three Months Ended June 30, 2024
($ in thousands)	Unrealized Loss on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total	
Beginning balance				
Other comprehensive income before reclassifications				
Amounts reclassified from accumulated other comprehensive income				
Net current period other comprehensive income				
Ending balance				
Ending balance				

Ending balance

	For the Three Months Ended June 30, 2023 For the Three Months Ended June 30, 2023 For the Three Months Ended June 30, 2023							
($ in thousands)	*($ in thousands)*	Unrealized Loss on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total	*($ in thousands)*	Unrealized Loss on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total
Beginning balance								
Other comprehensive loss before reclassifications								
Amounts reclassified from accumulated other comprehensive income								
Net current period other comprehensive (loss) income								
Ending balance								
Ending balance								
Ending balance								

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	For the Three Months Ended March 31, 2023				For the Six Months Ended June 30, 2024			
($ in thousands)	*($ in thousands)*	Unrealized Loss on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total	*($ in thousands)*	Unrealized Loss on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total
Beginning balance								
Other comprehensive income before reclassifications								
Other comprehensive loss before reclassifications								
Amounts reclassified from accumulated other comprehensive income								
Net current period other comprehensive income								
Net current-period other comprehensive (loss) income								
Ending balance								
Ending balance								
Ending balance								

	For the Six Months Ended June 30, 2023 For the Six Months Ended June 30, 2023 For the Six Months Ended June 30, 2023		
($ in thousands)	Unrealized Loss on Securities Available for Sale	Postretirement Plans Asset (Liability)	Total
Beginning balance			
Other comprehensive income before reclassifications			
Amounts reclassified from accumulated other comprehensive income			
Net current-period other comprehensive income			
Ending balance			
Ending balance			
Ending balance			

Amounts reclassified from AOCI for unrealized gain (loss) on securities available for sale represent realized securities gains or losses, net of tax effects. There were no security sales resulting in gains or losses in any period presented. Amounts reclassified from AOCI for postretirement plans asset (liability) represent amortization of amounts included in AOCI, net of taxes, and are recorded in the "Other operating expenses" line item of the consolidated statements of income.

Note 13. Revenue from Contracts with Customers

All of the Company's revenues that are in the scope of the "*Revenue from Contracts with Customers*" accounting standard ("ASC 606") are recognized within noninterest income. The following table presents the Company's sources of noninterest income for the three and six months ended March 31, 2024 June 30, 2024 and 2023. Items outside the scope of ASC 606 are noted as such.

		For the Three Months Ended		For the Three Months Ended	For the Six Months Ended
		For the Three Months Ended			
		For the Three Months Ended			
($ in thousands)	*($ in thousands)*	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
($ in thousands)					
($ in thousands)					
Noninterest Income in-scope of ASC 606:					
Noninterest Income in-scope of ASC 606:					
Noninterest Income in-scope of ASC 606:					
Service charges on deposit accounts					
Service charges on deposit accounts					
Service charges on deposit accounts					
Other service charges, commissions and fees:					
Other service charges, commissions and fees:					
Other service charges, commissions and fees:					
Other service charges and fees:					
Bankcard interchange income, net					
Bankcard interchange income, net					
Bankcard interchange income, net					
Other service charges and fees					
Other service charges and fees					
Other service charges and fees					
Commissions from the sales of financial products					
Commissions from the sales of financial products					
Commissions from the sales of financial products					
SBA consulting fees					
SBA consulting fees					
SBA consulting fees					
Noninterest income (in-scope of ASC 606)					
Noninterest income (in-scope of ASC 606)					
Commissions from sales of financial products					
Portion of other income in-scope of ASC 606					
Noninterest income (in-scope of ASC 606)					
Noninterest income (out-of-scope of ASC 606)					
Noninterest income (out-of-scope of ASC 606)					
Noninterest income (out-of-scope of ASC 606)					
Total noninterest income					
Total noninterest income					
Total noninterest income					

A description of There have been no material changes from the Company's Company's revenue streams accounted for under ASC 606 is detailed below.

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Overdraft fees are recognized at the point as discussed in time that the overdraft occurs. Maintenance and activity fees include account maintenance fees and transaction-based fees. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course Note 20 of the month, representing Company's Annual Report on Form 10-K for the period over which the Company satisfies the performance obligation. Transaction-based fees, which include services such as ATM usage fees, stop payment charges, statement rendering, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Service charges on deposits are withdrawn from the customer's account balance.

Other service charges, commissions, and fees: The Company earns interchange income on its customers' debit and credit card usage and earns fees from other services utilized by its customers. "Bankcard interchange income" is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as MasterCard. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Interchange fees are offset with interchange expenses and are presented on a net basis. "Other service charges and fees" includes revenue from processing wire transfers, bill pay

service, cashier's checks, ATM surcharge fees, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Commissions from the sales of financial products: The Company earns commissions from the sale of wealth management products which primarily consist of commissions received on financial product sales, such as annuities. The Company's performance obligation is generally satisfied upon the issuance of the financial product. Shortly after the policy is issued, the carrier remits the commission payment to the Company, and the Company recognizes the revenue. The Company also earns some fees from asset management, which is billed quarterly and due upon billing for services rendered in the most recent period, for which the performance obligation has been satisfied.

SBA Consulting fees: The Company earns fees for its consulting services related to the origination of SBA loans. Fees are based on a percentage of the dollar amount of the originated loans and are recorded when the performance obligation has been satisfied and are due upon billing.

The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from the above-described contracts with customers.

year ended December 31, 2023.

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

Highlights of the results for the quarter and year-to-date period are presented below (refer also to additional discussion in the "Results of Operations" and "Financial Condition" sections following). Comparisons for the financial periods presented are impacted by the GrandSouth acquisition which was completed on January 1, 2023 with the related core system conversion occurring in March 2023.

Overview and Highlights at and for Three Months Ended March 31, 2024 June 30, 2024

We earned net income of $25.3 million $28.7 million, or $0.61 $0.70 diluted EPS, during the three months ended March 31, 2024 June 30, 2024 compared to net income of $15.2 million $29.4 million, or $0.37 $0.71 diluted EPS, for the three months ended March 31, 2023 June 30, 2023. The increase decrease in net income in the the current year period as compared to the prior year period was related to driven primarily by higher merger cost of funds, partially offset by a higher yield on interest earning assets and acquisition expense and the initial provision for credit losses related to the GrandSouth acquisition in the prior year, the elimination of such which more that offset the increase in interest expense during the three months ended March 31, 2024. lower noninterest expenses.

- Net interest income for the first second quarter of 2024 was $79.2 million $81.1 million, a 14.3% 6.8% decrease from the $92.5 million $87.0 million recorded in the first second quarter of 2023. The decrease in net interest income from the prior year period was driven by higher cost of funds, partially offset by higher yield on earning assets.
- Net interest margin ("NIM") on a tax-equivalent basis decreased in the first second quarter of 2024 to 2.80% 2.87% from 3.31% 3.08% for the first second quarter of 2023 as a result of the higher cost of funds and decreased loan accretion, partially offset by increases in market interest rates driving higher yields on loans and other earning assets.
- We remained well-capitalized by all regulatory standards with a total common equity Tier 1 ratio of 13.99% and total risk-based capital ratio of 16.24% at June 30, 2024.

- The decline in the provision for credit losses from in the first second quarter of 2024 as compared to the second quarter of 2023 was directly related to a $593 thousand reduction in net charge off activity as well as generally improving economic forecasts that lead to a reduction in the GrandSouth acquisition reserves required for which an initial provision was recorded totaling $12.2 million. unfunded commitments.

- Noninterest income for the three months ended March 31, 2024 June 30, 2024 totaled $12.9 million $14.6 million which was a decrease an increase of $0.6 million $0.4 million, or 4.4% 2.9%, from the comparable period of 2023 and was primarily related to securities losses. an increase in SBA loan sale gains.

- Noninterest expense of $59.2 million $58.3 million for the quarter ended March 31, 2024 June 30, 2024 decreased $15.0 million $3.3 million, or 20.2% 5.4%, from the three months ended March 31, 2023 which included $12.2 million June 30, 2023. This decrease is attributable to the $1.3 million of merger and acquisition expense resulting from the GrandSouth acquisition. acquisition during the three months ended June 30, 2023 and a $1.1 million decrease in other operating expenses.

Overview and Highlights at and for Six Months Ended June 30, 2024

We earned net income of $54.0 million, or $1.31 diluted EPS, during the six months ended June 30, 2024 compared to net income of $44.6 million, or $1.08 diluted EPS, for the six months ended June 30, 2023.

- Net interest income for six months ended June 30, 2024 was $160.3 million, a 10.7% decrease from the $179.5 million recorded for the comparable period of 2023. The decrease in net interest income was driven by higher cost of funds, partially offset by higher yields on interest earning assets.

- NIM on a tax-equivalent basis decreased to 2.83% for the six months ended June 30, 2024 from 3.19% for the six months ended June 30, 2023 related to higher cost of funds driven by increases in market rates and competition for deposits. Higher rates on interest-bearing liabilities were partially offset by increased loan yields from market rate increases and pricing on new loans, partially offset by lower loan discount accretion.

- For the six months ended June 30, 2024, the Company recorded $1.7 million in provision for credit losses as compared to $14.9 million for the six months ended June 30, 2023. The higher provision in the 2023 period was directly related to the GrandSouth acquisition as follows: (1) a one-time provision of $12.2 million for non-credit deteriorated loans; and (2) a one-time initial provision for unfunded commitments of $1.9 million.

- Noninterest income for the six months ended June 30, 2024 totaled $27.6 million, a decrease of $0.2 million, or 0.7%, from the comparable period of 2023 primarily related to increased securities losses of $1.2 millionand a $597 thousand decrease in other service charges and fees, partially offset by an increase in SBA loan sale gains of $1.3 million.

- Noninterest expense decreased $18.3 million, or 13.5%, to $117.5 million for the six months ended June 30, 2024 as compared to the prior year period, primarily driven by a $13.5 milliondecrease in merger expenses resulting from the GrandSouth acquisition along with a $2.3 million decrease in other noninterest expense and a $2.1 million decrease in personnel expense.

Total assets at March 31, 2024 June 30, 2024 amounted to $12.1 billion, a 0.2% 0.4% decrease from December 31, 2023, and was driven primarily by intentional reductions in investment securities and loan balances, partially offset by higher interest-bearing cash balances. The primary balance sheet changes are presented below.

- Total loans amounted to $8.1 billion at March 31, 2024 June 30, 2024, reflecting a $73.6 million contraction of $80.3 million from December 31, 2023.

- Total deposits were $10.3 billion $10.5 billion at March 31, 2024 June 30, 2024, an increase of $271.7 million $456.2 million, or 2.71% 4.55%,from December 31, 2023.

- Credit quality continued to be strong at March 31, 2024 June 30, 2024, with a NPA to total assets ratio of 0.39% 0.37% as of March 31, 2024 June 30, 2024, consistent with that of December 31, 2023.

- Our on-balance sheet liquidity ratio was 15.5% 16.3% at March 31, 2024 June 30, 2024. Available off-balance sheet sources totaled $2.3 billion $2.4 billion at quarter end, resulting in a total liquidity ratio of 31.4%.

- We remained well-capitalized by all regulatory standards with a total common equity Tier 1 ratio of 13.50% and total risk-based capital ratio of 15.85% at March 31, 2024 34.2%.

Critical Accounting Estimates

The accounting principles we follow and our methods of applying these principles conform with GAAP and with general practices followed by the banking industry. Certain policies inherently have a greater reliance on the use of estimates, assumptions, or judgments and as such, have a greater possibility of producing results that could be materially different than originally reported. We have identified the determination of our ACL and related Allowance for Unfunded Commitments, as well as business combinations, related fair value measurements and goodwill determination to be the accounting areas that require the most subjective or complex judgments, estimates, and assumptions, and where changes in those judgments, estimates, and assumptions (based on new or additional information, changes in the economic climate and/or market interest rates, etc.) could have a significant effect on our financial statements.

The following should be read in conjunction with our There have been no material changes to the Company's significant accounting policies as presented discussed in Note 1 of the 2023 Company's Annual Report on Form 10-K filed with the SEC.

Allowance for Credit Losses on Loans and Allowance for Unfunded Commitments

While management uses the best information available to establish the ACL, future adjustments to the ACL and methodology may be necessary if economic or other conditions differ substantially from the assumptions used in making the estimates. We perform periodic and systematic detailed reviews of the loan portfolio to identify trends and to assess the overall collectability of the portfolio. We believe the accounting estimate related to the ACL is a “critical accounting estimate” as: (1) changes in it can materially affect the provision for credit losses and net income; (2) it requires management to predict borrowers’ likelihood or capacity to repay, including evaluation of inherently uncertain future economic conditions; (3) the value of underlying collateral must be estimated on collateral-dependent loans; (4) prepayment activity must be projected to estimate the life of loans that often are shorter than contractual terms; and (5) it requires estimation of a reasonable and supportable forecast period for credit losses. Accordingly, this is a highly subjective process and requires significant judgment since it is difficult to evaluate current and future economic conditions in relation to an overall credit cycle and estimate the timing and extent of loss events that are expected to occur prior to end of a loan’s estimated life.

Our ACL is assessed at each balance sheet date and adjustments are recorded in the provision for credit losses on the consolidated statements of income. There are many factors affecting the ACL, some of which are quantitative, while others require qualitative judgment. There are both internal factors (i.e., loan balances, historical loss rates, credit quality, the contractual lives of loans), external factors (i.e., economic conditions such as trends in housing prices, interest rates, national gross domestic product ("GDP"), inflation, and unemployment), and assumptions of probability of default and loss given default by loan category, that can impact the ACL estimate. One of the most significant assumptions is the macroeconomic scenario forecasts that determine the economic variables utilized in the ACL model. Due to the inherent uncertainty in the macroeconomic forecasts, we evaluate a baseline scenario quarterly, as well as upside or downside macroeconomic scenarios to assess the most reasonable scenario based on review of the variable forecasts for each scenario, comparison to expectations, and sensitivity of variations in each scenario.

The most significant variable in the economic forecasts is the national unemployment rate and changes in unemployment forecasts can have significant impact to the estimated ACL. Other economic variables include GDP, the national commercial real estate pricing index and the national home price index. We use the national unemployment rate in all of our models regardless of the loan portfolio type, and we use a second economic variable in each cohort model depending on the loan portfolio type. The ACL quantitative estimate is sensitive to changes in the economic variable forecasts during the twelve-month reasonable and supportable forecast period with a straight-line reversion over the next three years to long-term average loss factors. There have been no changes to the reasonable and supportable period or reversion period since year end.

Although management believes its process for determining the ACL adequately considers all the factors that could potentially result in credit losses, the process includes subjective elements and is susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for credit losses could be required that could adversely affect our earnings or financial position in future periods.

PCD loans represent assets that are acquired with evidence of more than insignificant credit quality deterioration since origination at the acquisition date. At acquisition, the allowance on PCD assets is booked directly to the ACL. Any subsequent changes in the ACL on PCD assets is recorded through the provision for credit losses on the consolidated statements of income.

We believe that the ACL is adequate to absorb the expected life of loan credit losses on the portfolio of loans as of the balance sheet date. Actual losses incurred may differ materially from our estimates. For example, inflationary pressures and recessionary concerns leading to macroeconomic economic deterioration, higher unemployment and declines in real estate and other asset valuations could affect our loss experience and assumptions utilized in our model.

We estimate expected credit losses on unfunded commitments to extend credit over the contractual period in which we are exposed to credit risk on the underlying commitments, unless the obligation is unconditionally cancellable. The allowance for off-balance sheet credit exposures, which is included in "Other liabilities" on the consolidated balance sheets, is adjusted for as an increase or decrease to the provision for credit losses on the consolidated statements of income. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The methodology is based on a loss rate approach that starts with the probability of funding based on historical experience. Similar to the methodology discussed above related to the loans receivable portfolio, adjustments are made to the historical losses for current conditions and reasonable and supportable forecasts.

Additional information on the loan portfolio and ACL can be found in the “Nonperforming Assets” and “Allowance for Credit Losses and Loan Loss Experience” sections following.

Business Combinations and Goodwill

We believe that the accounting for business combinations, goodwill, and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. Pursuant to applicable accounting guidance, we recognize assets acquired, including identified intangible assets, and the liabilities assumed in acquisitions at their fair values as of the acquisition date, with the related transaction costs expensed in the period incurred. Specified items such as acquired operating lease assets and liabilities as lessee, employee benefit plans, and income-tax related balances are recognized in accordance with accounting guidance that results in measurements that may differ from fair value. Determining the fair value of assets acquired and liabilities assumed often involves estimates based on internal or third-party valuations which include appraisals, discounted cash flow analysis, or other valuation techniques that may include estimates of attrition, inflation, asset growth rates, discount rates, credit risk, multiples of earnings, or other relevant factors. The determination of fair value may require us to make point-in-time estimates about discount rates, future expected cash flows, market conditions, and other future events that can be volatile in nature and challenging to assess. While we use the best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement.

The primary identifiable intangible asset we typically record in connection with a whole bank or bank branch acquisition is the value of the core deposit intangibles which represents the estimated value of the long-term deposit relationships acquired in the transaction. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition/runoff, alternative funding costs, deposit servicing costs, and discount rates. The core deposit intangibles are amortized over the estimated useful lives of the deposit accounts based on a method that we believe reasonably approximates the anticipated benefit stream from this intangible. The estimated useful lives are periodically reviewed for reasonableness and have generally been estimated to have a life ranging from seven to ten years, with an accelerated rate of amortization. We review identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our policy is that an impairment loss is recognized, equal to the difference between the asset's carrying amount and its fair value, if the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Estimating future cash flows involves the use of multiple estimates and assumptions, such as those listed above.

The ACL for PCD assets is recognized within business combination accounting with no initial impact to net income. Changes in estimates of expected credit losses on PCD loans after acquisition are recognized as provision expense (or reversal of provision expense) in subsequent periods as they arise. The ACL for non-PCD assets is recognized as provision expense in the same reporting period as the business combination. Estimated loan losses for acquired loans are determined using methodologies and applying estimates and assumptions that were described previously in the Allowance for Credit Losses on Loans and Allowance for Unfunded Commitments section above.

Non-PCD loans acquired are generally estimated at fair value using a discounted cash flow approach with assumptions of discount rate, remaining life, prepayments, probability of default, and loss given default. The actual cash flows on these loans could differ materially from the fair value estimates. The amount we record as the fair values for the loans is generally less than the contractual unpaid principal balance due from the borrowers, with the difference being referred to as the “discount” on the acquired loans. Discounts on acquired non-PCD loans are accreted to interest income over their estimated remaining lives, which may include prepayment estimates in certain circumstances.

Similarly, premiums or discounts on acquired debt are accreted or amortized to interest expense over their remaining lives. Actual accretion or amortization of premiums and discounts from a business acquisition may differ materially from our estimates impacting our operating results.

We believe that the accounting for goodwill also involves a higher degree of judgment than most other significant accounting policies. Goodwill arising from business combinations represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

ASC 350-10 establishes standards for an impairment assessment of goodwill. At each reporting date between annual goodwill impairment tests, we consider potential indicators of impairment. Generally, absent potential impairment indicators, we perform an annual assessment of whether the events and circumstances resulted in it being more likely than not that the fair value of any reporting unit was less than its carrying value. Impairment indicators considered include the condition of the economy and banking industry; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting unit; performance of the Company's stock, and other relevant events. During 2024, there were no triggers warranting interim impairment assessments and, for the most recent annual assessment which occurred in the fourth quarter of 2023, we concluded that it was more likely than not that the fair value exceeded its carrying value.year ended December 31, 2023.

Current Accounting Matters

See Note 1 to the Consolidated Financial Statements consolidated financial statements for information about recently announced or adopted accounting standards.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is our largest source of revenue and is the difference between the interest earned on interest-earning assets (generally loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (generally deposits and borrowed funds). Changes in the net interest income are the result of changes in volume and the net interest spread which affects NIM. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. NIM refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities. Net interest income is also influenced by external factors such as local economic conditions, competition for loans and deposits, and market interest rates.

Net interest income for the three months ended March 31, 2024 June 30, 2024 amounted to $79.2 million $81.1 million, a decrease of $13.3 million $5.9 million, or 14.3% 6.8%, from the $92.5 $87.0 million recorded in the first second quarter of 2023. The decrease was primarily driven by higher cost of funds, partially offset by higher yields on earning assets. While average interest-earning assets for the first second quarter of 2024 increased 0.5% 0.3% from the comparable period of the prior year, the mix of assets shifted to higher earning assets, with average loans growing $375.0 million $220.3 million, or 4.85% 2.81%, and short term investments growing $157.3 million, or 44.90%, while taxable securities decreased $207.1 million $333.4 million, or 6.85%, and short term investments decreased $101.2 million, or 26.69%.The 11.40%. The increase in the cost of interest bearing deposits of 114 86 basis points between the first second quarter of 2023 and the first second quarter of 2024 more than offset improvements from earning asset mix changes and higher yields. This resulted in the reduction in our NIM which, on a tax-equivalent basis NIM (see discussion below), decreased from 3.31% 3.08% for the first second quarter of 2023 to 2.80% 2.87% for the three months ended March 31, 2024. second quarter of 2024.

For internal purposes, we evaluate our NIM on a tax-equivalent basis by adding the tax benefit realized from tax-exempt loans and securities to reported interest income then dividing by total average earning assets. We believe that analysis of NIM on a tax-equivalent basis NIM is useful and appropriate because it allows a comparison of net interest income in different periods without taking into account the different mix of taxable versus non-taxable loans and investments that may have existed during those periods.The following is a reconciliation of reported net interest income to tax-equivalent net interest income and the resulting NIM as reported and on a tax-equivalent basis.

		For the Three Months Ended March 31,				For the Three Months Ended June 30,			
($ in thousands)	*($ in thousands)*	2024		2023	*($ in thousands)*	2024		2023	
Net interest income, as reported									
Tax-equivalent adjustment									
Net interest income, tax-equivalent									
Net interest margin, as reported	Net interest margin, as reported	2.77	%	3.28	% Net interest margin, as reported	2.84	%	3.05	%
Net interest margin, tax-equivalent	Net interest margin, tax-equivalent	2.80	%	3.31	% Net interest margin, tax-equivalent	2.87	%	3.08	%

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The following table presents an analysis of net interest income for the three months ended March 31, 2024 June 30, 2024 and 2023:

Average Balances and Net Interest Income Analysis

		Three Months Ended March 31,							Three Months Ended June 30,					
		2024			2023				2024			2023		
($ in thousands)	*($ in thousands)*	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid	*($ in thousands)*	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid
Assets	**Assets**							**Assets**						
Loans (1) (2)														
Taxable securities														
Non-taxable securities														
Short-term investments, primarily interest-bearing cash														
Total interest-earning assets														
Cash and due from banks														
Cash and due from banks														
Cash and due from banks														
Premises and equipment														
Premises and equipment														
Premises and equipment														
Other assets														
Other assets														
Other assets														
Total assets														
Total assets														

Total assets
Liabilities
Liabilities
Liabilities
Interest-bearing checking
Interest-bearing checking
Interest-bearing checking
Money market deposits
Savings deposits
Other time deposits
Time deposits >$250,000
Total interest-bearing deposits
Borrowings
Total interest-bearing liabilities
Noninterest-bearing checking
Noninterest-bearing checking
Noninterest-bearing checking
Other liabilities
Other liabilities
Other liabilities
Shareholders' equity
Shareholders' equity
Shareholders' equity
Total liabilities and shareholders' equity
Total liabilities and shareholders' equity
Total liabilities and shareholders' equity
Net yield on interest-earning assets and net interest income
Net yield on interest-earning assets and net interest income
Net yield on interest-earning assets and net interest income
Net yield on interest-earning assets and net interest income – tax-equivalent (3)
Interest rate spread
Interest rate spread
Interest rate spread
Average prime rate
Average prime rate
Average prime rate

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown. Interest earned includes recognized net loan fees, including late fees, prepayment fees, and net deferred loan (cost)/fee amortization in the amounts of $(103,000) $(271,000), and $357,000 $49,000 for three months ended March 31, 2024 June 30, 2024 and 2023, respectively.
(2) Includes accretion of discount on acquired and SBA loans of $2.9 million $2.3 million and $3.6 million $3.2 million for three months ended March 31, 2024 June 30, 2024 and 2023, respectively.
(3) Includes tax-equivalent adjustments of $731,000 $733,000 and $700,000 $699,000 for three months ended March 31, 2024 June 30, 2024 and 2023, respectively, to reflect the tax benefit that we receive related to tax-exempt securities and tax-exempt loans, which carry interest rates lower than similar taxable investments/loans due to their tax-exempt status. This amount has been computed assuming a 23% tax rate and is reduced by the related nondeductible portion of interest expense.

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Overall, as demonstrated in the table above, despite the change in the mix of earning assets to higher yielding assets, the compression in NIM drove the decrease in net interest income.

- Market interest rates increased 50 25 basis points between March June 2023 and March June 2024 to result in an average prime rate of 8.50% for three months ended March 31, 2024 June 30, 2024 compared to 7.69% 8.16% for the prior year period.

- Average loan volumes for the three months ended March 31, 2024 June 30, 2024 were $375.0 $220.3 million higher than the same period in 2023. In addition, interest rates on loans increased 23 24 basis points to 5.45% 5.50% for the first second quarter of 2024, resulting in an increase in interest income on loans of $10.4 $7.5 million.

- Due to higher market rates and increased average balances, deposit interest expense for the three months ended March 31, 2024 June 30, 2024 increased $20.2 $17.4 million compared to the same period in 2023. Average interest-bearing deposit balances increased $337.8 million $563.2 million while rates on those deposits increased 114 86 basis points as compared to the same period in the prior year.

- The combination of higher rates on borrowings, up 37 basis points in the first quarter of 2024 from the first quarter of 2023 due to increasing market rates, and the increase decrease in volume of borrowings between periods, partially offset by higher rates on those borrowings, up 141 basis points in the second quarter of 2024 from the second quarter of 2023, as a result of increasing market rates, drove the $2.4 million increase $3.9 million decrease in interest expense on borrowings. Average borrowings were $139.4 million higher $315.5 million lower in the first second quarter of 2024 as compared to the first second quarter of 2023 due in large part to the higher levels decreased utilization of short-term borrowings utilized to fund loan growth and manage fluctuations in deposit balances.

- The decrease in NIM was directly related to higher rates on liabilities driven by current market rates with repricing on our deposits occurring at a more rapid pace that the increase in yields on assets.

Net interest income for the six months ended June 30, 2024 amounted to $160.3 million, a decrease of $19.2 million, or 10.7%, from the $179.5 million recorded in the six months ended June 30, 2023. The decrease was driven by higher cost of funds, partially offset by increased yields on interest earning assets. Our tax-equivalent NIM fell to 2.83% for the six months ended June 30, 2024 from 3.19% for the six months ended June 30, 2023 as discussed further below.

The following is a reconciliation of reported net interest income to tax-equivalent net interest income and the resulting NIM as reported and on a tax-equivalent basis.

	For the Six Months Ended June 30,	
($ in thousands)	2024	2023
Net interest income, as reported	$ 160,300	$ 179,471
Tax-equivalent adjustment	1,464	1,399
Net interest income, tax-equivalent	$ 161,764	$ 180,870
Net interest margin, as reported	2.81 %	3.17 %
Net interest margin, tax-equivalent	2.83 %	3.19 %

The following table presents an analysis of net interest income for the six months ended June 30, 2024 and 2023.

Average Balances and Net Interest Income Analysis						
	Six Months Ended June 30,					
	2024			2023		
($ in thousands)	Average Volume	Average Rate	Interest Earned or Paid	Average Volume	Average Rate	Interest Earned or Paid
Assets						
Loans (1) (2)	$ 8,087,101	5.48 %	$ 220,181	$ 7,789,800	5.24 %	$ 202,343
Taxable securities	2,703,441	1.79 %	24,019	2,973,460	1.80 %	26,479
Non-taxable securities	292,622	1.54 %	2,234	297,789	1.52 %	2,250
Short-term investments, primarily interest-bearing cash	392,790	4.56 %	8,913	364,651	4.02 %	7,263
Total interest-earning assets	11,475,954	4.47 %	$ 255,347	11,425,700	4.21 %	238,335
Cash and due from banks	87,754			94,239		
Premises and equipment	150,401			151,877		
Other assets	369,132			378,546		
Total assets	$ 12,083,241			$ 12,050,362		

Liabilities								
Interest bearing checking	$	1,400,425	0.69 %	$ 4,784	$	1,491,401	0.30 %	$ 2,199
Money market deposits		3,854,453	3.14 %	60,223		3,113,201	1.87 %	28,867
Savings deposits		581,339	0.22 %	625		702,527	0.11 %	397
Other time deposits		723,904	3.20 %	11,509		838,287	2.59 %	10,770
Time deposits >$250,000		363,640	3.73 %	6,738		328,079	2.47 %	4,013
Total interest-bearing deposits		6,923,761	2.44 %	83,879		6,473,495	1.44 %	46,246
Borrowings		372,987	6.02 %	11,168		461,260	5.52 %	12,618
Total interest-bearing liabilities		7,296,748	2.62 %	95,047		6,934,755	1.71 %	58,864
Noninterest bearing checking		3,331,811				3,725,222		
Other liabilities		77,795				96,228		
Shareholders' equity		1,376,887				1,294,157		
Total liabilities and shareholders' equity	$	12,083,241			$	12,050,362		
Net yield on interest-earning assets and net interest income			2.81 %	$ 160,300			3.17 %	$ 179,471
Net yield on interest-earning assets and net interest income – tax-equivalent (3)			2.83 %	$ 161,764			3.19 %	$ 180,870
Interest rate spread			1.85 %				2.50 %	
Average prime rate			8.50 %				7.92 %	

(1) Average loans include nonaccruing loans, the effect of which is to lower the average rate shown. Interest earned includes recognized net loan fees, including late fees, prepayment fees, and deferred loan (cost)/fee amortization (including deferred PPP fees), in the amounts of $(374,000), and $406,000 for six months ended June 30, 2024 and 2023, respectively.
(2) Includes accretion of discount on acquired loans of $4.7 million and $6.3 million for six months ended June 30, 2024 and 2023, respectively.
(3) Includes tax-equivalent adjustments of $1.5 million and $1.4 million for six months ended June 30, 2024 and 2023, respectively, to reflect the tax benefit that we receive related to tax-exempt securities and tax-exempt loans, which carry interest rates lower than similar taxable investments/loans due to their tax exempt status. This amount has been computed assuming a 23% tax rate and is reduced by the related nondeductible portion of interest expense

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Overall, as demonstrated in the table above, the reduction in NIM, partially offset by higher earning asset volumes, drove the decrease in net interest income.

- Market interest rates increased 25 basis points between June 2023 and June 2024 to result in an average prime rate of 8.50% for six months ended June 30, 2024 compared to 7.92% for the prior year period.
- Average loan volumes for the six months ended June 30, 2024 were $297.3 million higher than the same period in 2023 due to organic loan growth. In addition, interest rates on loans increased 24 basis points to 5.48% for the six months ended June 30, 2024, resulting in an increase in loan interest income of $17.8 million.
- Primarily due to higher market rates, deposit interest expense for the six months ended June 30, 2024 increased $37.6 million compared to the same period in 2023. Average interest-bearing deposit balances increased $450.3 million while rates on those deposits increased 100 basis points as compared to the same period in the prior year.
- Interest expense on borrowings decreased $1.5 million for the six months ended June 30, 2024 as compared to the same period in 2023 due to the $88.3 million decrease in the average volume of borrowings between periods, partially offset by a 50 basis point increase in the rates on those borrowings. The lower balances were due in large part to the lower levels of short-term borrowings being utilized to fund loan growth and manage fluctuations in deposit balances.
- NIM decreased 36 basis points between the comparable periods as higher loan yields from market rate increases and improved pricing on new loans, combined with increased loan discount accretion were more than offset by the higher cost of funds, also driven by increases in market rates and competition for deposits.

Our NIM for all periods presented benefited from the net accretion income, primarily associated with purchase accounting premiums/discounts associated with acquisitions. Presented in the table below is the amount of accretion which increased net interest income in each time period presented.

	For the Three Months Ended March 31,
	For the Three Months Ended March 31,

		For the Three Months Ended March 31,			
($ in thousands)					
($ in thousands)					
		For the Three Months Ended June 30,		For the Six Months Ended June 30,	
($ in thousands)	*($ in thousands)*	2024	2023	2024	2023
Interest income – increased by accretion of loan discount on acquired loans					
Interest income – increased by accretion of loan discount on acquired loans					
Interest income – increased by accretion of loan discount on acquired loans					
Interest income - increased by accretion of loan discount on retained SBA loans					
Interest income - increased by accretion of loan discount on retained SBA loans					
Interest income - increased by accretion of loan discount on retained SBA loans					
Total interest income impact					
Total interest income impact					
Total interest income impact					
Interest expense – increased by discount accretion of deposits					
Interest expense – increased by discount accretion of deposits					
Interest expense – increased by discount accretion of deposits					
Interest expense – increased by discount accretion of borrowings					
Interest expense – increased by discount accretion of borrowings					
Interest expense – increased by discount accretion of borrowings					
Total net interest expense impact					
Total net interest expense impact					
Total net interest expense impact					
Total impact on net interest income					
Total impact on net interest income					
Total impact on net interest income					

The most significant component of the purchase accounting adjustments in each year was loan discount accretion on purchased loans. Generally, the level of loan discount accretion will decline each year due to the natural paydowns in acquired loan portfolios.

At March 31, 2024 June 30, 2024 and 2023, unaccreted loan discounts on purchased loans amounted to $21.6 million $19.3 million and $32.4 million $29.2 million, respectively. The GrandSouth acquired portfolio comprised the majority of the remaining unaccreted loan discount at March 31, 2024 June 30, 2024.

In addition to the loan discount accretion recorded on acquired loans, we recorded accretion on the discounts associated with the retained unguaranteed portions of SBA loans sold in the secondary market. The level of SBA loan discount accretion will fluctuate relative to the SBA loan portfolio balances. At March 31, 2024 June 30, 2024 and 2023, the unaccreted loan discounts on SBA loans amounted to $3.4 million $3.2 million and $4.0 million $3.8 million, respectively.

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Provision for Credit Losses and Provision for Unfunded Commitments

The provision for credit losses is comprised of the provision for loan losses and the provision for unfunded commitments. The provision recorded in each period represents the amount required such that the total ACL reflects the current estimate of life of loan credit losses in the loan portfolio and the allowance for unfunded

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commitments reflects the current expected losses on unfunded loan commitments that are expected to result in outstanding loan balances. Our estimate of credit losses is determined using a complex model that relies on reasonable and supportable forecasts and historical loss information to determine the balance of the ACL and allowance for unfunded commitments. Refer also to “Critical Accounting Estimates” in Item 7 of the additional discussion previously under 2023 Annual Report on Form 10-K filed with the "Critical Accounting Estimates" section. SEC for more information.

The provision for credit losses was $1.2 $0.5 million and $2.4 million for the three months ended March 31, 2024 June 30, 2024 and $12.5 2023, respectively, and $1.7 million and $14.9 million for the six months ended June 30, 2024 and 2023, respectively. The lower provision in the comparable period second quarter was primarily due to a $593 thousand reduction in 2023. The net charge off activity as well as generally improving economic forecasts that lead to a reduction in the reserves required for unfunded commitments.The primary contributor to the higher provision for 2023 the six months ended June 30, 2023 was the initial provision required for the loan portfolio acquired from GrandSouth.

The provision for credit losses recorded and related increase in the ACL for the first quarter of 2024 related in part to updated prepayment speed estimates which are a key assumption in the CECL model. The higher interest rate environment has resulted in slower prepayment speed estimates, thus increasing the projected ACL required. In addition, updated economic forecasts and loss driver inputs to the CECL mode have projected continued uncertainty in the economy demonstrated in higher projected unemployment rates, lower GDP, and increasing price indices for both commercial real estate and residential mortgages. These economic projections translated to higher forecasted losses in our loan portfolio and, thus a higher estimated ACL. The calculated increases in the allowances were partially offset by the lower balances in the loan portfolio and the levels of unfunded commitments.

Additional discussion of the CECL method and our asset quality and credit metrics, which impact our provision for credit losses, is provided in the "Nonperforming Assets" and "Allowance for Credit Losses, Allowance for Unfunded Commitments, and Loan Loss Experience" sections following.

Noninterest Income

Our noninterest income amounted to $12.9 million $14.6 million and $13.5 million $14.2 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively and $27.6 million and $27.8 million for the six months ended June 30, 2024 and 2023, respectively. The lower higher noninterest income in the current quarter was as compared to the prior year is primarily the result of higher "SBA loan sale gains," partially offset by decreases in "Other service charges and fees" and "Securities losses, net." The decreased noninterest income for the six months ended June 30, 2024 as compared to the same period in 2023 is a result of the $1.0 million loss on the call of a bond which had an unamortized premium balance. "Securities losses, net" in 2024 and lower "Other service charges and fees," partially offset by increased "SBA loan sale gains" and "Bank-owned life insurance income." Details of the more significant components of noninterest income is presented in the table below.

		For the Three Months Ended June 30,		For the Six Months Ended June 30,	
($ in thousands)	*($ in thousands)*	2024	2023	2024	2023
($ in thousands)					
($ in thousands)					
Service charges on deposit accounts					
Service charges on deposit accounts					
Service charges on deposit accounts					
Other service charges and fees - bankcard interchange income, net					
Other service charges and fees - bankcard interchange income, net					
Other service charges and fees - bankcard interchange income, net					
Other service charges and fees - other					
Other service charges and fees - other					
Other service charges and fees - other					
Presold mortgage loan fees and gains on sale					
Presold mortgage loan fees and gains on sale					
Presold mortgage loan fees and gains on sale					
Commissions from sales of financial products					
Commissions from sales of financial products					
Commissions from sales of financial products					
SBA consulting fees					
SBA consulting fees					
SBA consulting fees					
SBA loan sale gains					
SBA loan sale gains					
SBA loan sale gains					
Bank-owned life insurance ("BOLI") income					
Bank-owned life insurance ("BOLI") income					
Bank-owned life insurance ("BOLI") income					
Bank-owned life insurance income					
Securities losses, net					
Securities losses, net					
Securities losses, net					
Other gains, net					
Other gains, net					
Other gains, net					
Other income					

Total noninterest income

Total noninterest income

Total noninterest income

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Noninterest Expenses

Total noninterest expenses totaled $59.2 million $58.3 million and $74.2 million $61.6 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively, and $117.5 million and $135.8 million for the six months ended June 30, 2024 and 2023, respectively. The primary contributor contributors to the 20.2% 5.4% decrease in noninterest expense for the first second quarter of 2024 as compared to the same period of 2023 was were the merger Merger and acquisition costs of $12.2 million $1.3 million related to the GrandSouth acquisition. Also contributing to lower noninterest expense acquisition, the $0.8 million decrease in Non-credit losses and the three $0.5 million decrease in FDIC insurance costs. The decrease for the six months ended March 31, 2024 were decreases June 30, 2024 as compared to the same period in 2023 was primarily the result of a decrease in Merger and acquisition costs of $13.5 million related to the GrandSouth acquisition, a reduction in Total personnel expense expenses of $1.8 million related $2.1 million, a decrease in large part to overlapping personnel costs incurred until the conversion of GrandSouth's core system in mid-March 2023. Other operating expenses declined $1.6 million of $1.3 million and a decrease in Non-credit losses of $1.1 million. The decline in Other operating expenses was primarily related to a $2.4 million charge in 2023 for the estimated termination costs associated with the Company's pension plan.

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The following table presents the primary components of noninterest expense expenses.

	For the Three Months Ended March 31,						
	For the Three Months Ended March 31,						
	For the Three Months Ended March 31,						
($ in thousands)							
($ in thousands)							
		For the Three Months Ended June 30,			For the Six Months Ended June 30,		
($ in thousands)	*($ in thousands)*	2024		2023	2024		2023
Salaries							
Salaries							
Salaries							
Employee benefits							
Employee benefits							
Employee benefits							
Total personnel expense							
Total personnel expense							
Total personnel expense							
Occupancy expense							
Occupancy expense							
Occupancy expense							
Equipment related expenses							
Equipment related expenses							
Equipment related expenses							
Credit card rewards and other bankcard expenses							
Credit card rewards and other bankcard expenses							
Credit card rewards and other bankcard expenses							
Telephone and data lines							
Telephone and data lines							
Telephone and data lines							
Software licenses and other software costs							

Software licenses and other software costs
Software licenses and other software costs
Data processing expense
Data processing expense
Data processing expense
Professional fees
Professional fees
Professional fees
Advertising and marketing
Advertising and marketing
Advertising and marketing
Non-credit losses
Non-credit losses
Non-credit losses
FDIC and corporate insurance costs
FDIC and corporate insurance costs
FDIC and corporate insurance costs
Other operating expenses
Other operating expenses
FDIC insurance costs
Corporate insurance costs
Other operating expenses
Merger and acquisition expenses
Merger and acquisition expenses
Merger and acquisition expenses
Amortization of intangible assets
Amortization of intangible assets
Amortization of intangible assets
Foreclosed property gains, net
Foreclosed property gains, net
Foreclosed property gains, net
Total noninterest expense
Total noninterest expense
Total noninterest expense

Income Taxes

We recorded income tax expense of $6.5 million $8.2 million and $4.2 million $7.9 million for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively. Our effective tax rate was 20.5% 22.2% and 21.6% 21.1% for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively. The higher effective tax rate for 2023 2024 was attributable primarily to merger variances in state income taxes. For the six months ended June 30, 2024 and acquisition expenses 2023, we recorded in that period related to tax expense of $14.7 million and $12.0 million, respectively. Our effective tax rate was 21.4% and 21.3% for the GrandSouth acquisition resulting in non-deductible adjustments for income tax purposes. six months ended June 30, 2024 and 2023, respectively.

FINANCIAL CONDITION

Total assets at March 31, 2024 June 30, 2024 amounted to $12.1 billion, a $23.3 million $54.1 million, or 0.2% 0.4%, decrease from December 31, 2023 and was primarily related to intentional reductions in investment securities and loan balances, partially offset by higher interest-bearing cash balances.

Total loans at March 31, 2024 June 30, 2024 amounted to $8.1 billion, a $73.6 million decrease of $80.3 million, or 0.9% 1.0%, decrease from December 31, 2023. The mix of our loan portfolio remained substantially the same at March 31, 2024 June 30, 2024 as compared to December 31, 2023, with the exception of Construction, development & other land loans, which, as a percentage of the loan

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portfolio, fell from 12% at December 31, 2023 to 9% at June 30, 2024. The majority of our real estate loans were personal mortgages and commercial loans where real estate provides additional security for the loan. Note 4 to the consolidated financial statements presents additional detailed information detail regarding our mix of loans. At March 31, 2024 June 30, 2024, we had no notable concentrations in geographies or industries, including in office or hospitality categories. The Company's exposure to non-owner occupied commercial office loans represented approximately 5.7% of the total portfolio at March 31, 2024 June 30, 2024, with the largest loan being $27.0 million $26.8 million and the average loan outstanding balance of $1.3 million. Non-owner occupied office loans are generally in non-metro markets and the 10 largest loans in this category represented less than 2% of the total loan portfolio at March 31, 2024 June 30, 2024.

The composition of our investment portfolio remained substantially the same at March 31, 2024 June 30, 2024 as at December 31, 2023, with the exception of U.S. Treasuries, $124.9 million and $175.9 million of which were sold or matured during the three and six months ended June 30, 2024, respectively, and Mortgage-backed securities, of which $104.0 million and $134.7 million were sold, matured or were paid down during the three and six months ended June 30, 2024, respectively. The composition of the investment portfolio continued to reflect our investment strategy of maintaining an appropriate level of liquidity while providing a stable source of income. The investment portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits.

Total investment securities decreased $108.9 million were $2.4 billion at June 30, 2024, a decrease of $332.2 million from December 31, 2023 to total $2.6 billion at March 31, 2024 as there have been. During the three and six months ended June 30, 2024, the Company made no purchases to date in 2024 and cash flows from maturities, calls and amortizing securities continue to be utilized to fund loan growth and deposit fluctuations, or were invested in other short-term interest bearing assets. There were

no sales of investment securities. During the second quarter of 2024, the Company sold $142.9 million of available for sale investment securities at a $4.7 million loss that was substantially offset by the $4.5 million gain on sale of the VISA B shares during the three months ended March 31, 2024, while the that quarter. The call of a security during the period first quarter of June 30, 2024 resulted in a loss of $1.0 million $975 thousand related to the unamortized premium balance. In addition, the Company continues to utilize cash flows from investment securities to fund earning assets and repay borrowings and brokered deposits.

The unrealized loss on available for sale securities totaled $418.9 million $410.1 million at March 31, 2024 June 30, 2024. Refer to Note 3 to the consolidated financial statements for additional detailed information regarding our mix of investments and the unrealized losses for each category. We invest primarily in securities issued by governments or by GSEs including FHLMC, FNMA, GNMA, and SBA, each of which guarantees the repayment of the securities. Nearly all of our mortgage-backed securities are issued by GSEs and are traded in liquid secondary markets. The state and local government investments are comprised almost entirely of highly-rated municipal bonds issued by state and local governments throughout the nation. We have no significant concentration of bond holdings from one state or local government entity. We evaluated the unrealized losses on individual securities at March 31, 2024 June 30, 2024 and determined them to be of a temporary nature due primarily to interest rate factors and not credit quality concerns. In arriving at this conclusion, we reviewed third-party credit ratings and considered the severity of the impairment.

Total deposits amounted to $10.3 billion $10.5 billion at March 31, 2024 June 30, 2024, an increase of $271.7 million $456.2 million, or 2.7% 4.5%, from December 31, 2023. Brokered deposits increased $183.5 million $36.4 million from year end, while organic growth from market customer deposits totaled $88.3 million $419.8 million.

We continue to have a diversified and granular deposit base which has remained stable with continued growth in core customer deposits, primarily money market accounts. Our deposit mix has remained consistent historically and has not changed significantly and there has been no notable shift in deposits from noninterest-bearing to interest-bearing.

		March 31, 2024			December 31, 2023								
		June 30, 2024			December 31, 2023								
($ in thousands)	*($ in thousands)*	Amount		Percentage	Amount		Percentage	*($ in thousands)*	Amount		Percentage	Amount	
Noninterest-bearing checking accounts	Noninterest-bearing checking accounts	$ 3,362,265	33	33 %	3,379,876	34	34 %	Noninterest-bearing checking accounts	$ 3,339,678	32	32 %	$ 3,379,876	34
Interest-bearing checking accounts	Interest-bearing checking accounts	1,401,724	13	13 %	1,411,142	14	14 %	Interest-bearing checking accounts	1,400,071	13	13 %	1,411,142	14
Money market accounts	Money market accounts	3,787,323	37	37 %	3,653,506	36	36 %	Money market accounts	4,150,429	40	40 %	3,653,506	36
Savings accounts	Savings accounts	584,901	6	6 %	608,380	6	6 %	Savings accounts	558,126	5	5 %	608,380	6
Other time deposits	Other time deposits	607,359	6	6 %	610,887	6	6 %	Other time deposits	601,212	6	6 %	610,887	6

Time deposits >$250,000	Time deposits >$250,000	363,687	3	3 %	355,209	4	4	%	Time deposits >$250,000	389,281	4	4 %	355,209	4
Total market deposits		10,107,259		98 %	10,019,000		100	%						
Total customer deposits		10,438,797		100 %	10,019,000		100	%						
Brokered deposits	Brokered deposits	196,052	2	2 %	12,599	—	—	%	Brokered deposits	49,032	—	— %	12,599	—
Total deposits	Total deposits	$ 10,303,311	100	100 %	10,031,599	100	100	%	Total deposits	$ 10,487,829	100	100 %	$ 10,031,599	100

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As of March 31, 2024 June 30, 2024, the estimated insured deposits totaled $6.4 billion or 61.8% 61.3% of total deposits. In addition, we had collateralized deposits at that date of $757.0 million $762.2 million such that approximately 69.2% 68.6% of our total deposits were insured or collateralized at March 31, 2024 June 30, 2024.

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Nonperforming Assets

NPAs are defined as nonaccrual loans, modifications to borrowers in financial distress, loans past due 90 or more days and still accruing interest, and foreclosed real estate. NPAs are summarized as follows:

($ in thousands)	*($ in thousands)*	March 31, 2024		December 31, 2023		*($ in thousands)*	June 30, 2024		December 31, 2023	
Nonperforming assets										
Nonaccrual loans										
Nonaccrual loans										
Nonaccrual loans										
Modifications to borrowers in financial distress										
Total nonperforming loans										
Total nonperforming loans										
Total nonperforming loans										
Foreclosed real estate										
Total nonperforming assets										
Asset Quality Ratios										
Asset Quality Ratios										
Asset Quality Ratios										
Nonaccrual loans to total loans										
Nonaccrual loans to total loans										
Nonaccrual loans to total loans		0.44	%	0.40	%		0.41	%	0.40	%
Nonperforming loans to total loans	Nonperforming loans to total loans	0.58	%	0.54	%	Nonperforming loans to total loans	0.54	%	0.54	%
Nonperforming assets to total loans and foreclosed properties	Nonperforming assets to total loans and foreclosed properties	0.59	%	0.55	%	Nonperforming assets to total loans and foreclosed properties	0.55	%	0.55	%
Nonperforming assets to total assets	Nonperforming assets to total assets	0.39	%	0.37	%	Nonperforming assets to total assets	0.37	%	0.37	%
Allowance for credit losses to total loans	Allowance for credit losses to total loans	1.36	%	1.35	%	Allowance for credit losses to total loans	1.36	%	1.35	%
Allowance for credit losses to nonaccrual loans	Allowance for credit losses to nonaccrual loans	308.99	%	341.07	%	Allowance for credit losses to nonaccrual loans	332.48	%	341.07	%
Allowance for credit losses to nonperforming loans	Allowance for credit losses to nonperforming loans	236.09	%	250.08	%	Allowance for credit losses to nonperforming loans	252.44	%	250.08	%

As shown in the table above, total NPAs at March 31, 2024 increasedJune 30, 2024 decreased slightly to $47.5 million$44.7 million from year end level and related primarily to the $3.4 million$1.2 million decrease in modifications to borrowers in financial distress, partially offset by the $0.9 million increase in nonaccrual loans driven by a SBA loan relationship that was placed on nonaccrual and which is substantially covered by a guarantee from the SBA.loans.

"Commercial and industrial" is the largest category of nonaccrual loans, at $12.7$12.0 million, or 35.7%36.1%, of total nonaccrual loans, followed by "Commercial real estate - owner occupied" at $9.0$9.1 million, or 25.2%27.5%, of total nonaccrual loans. Included in thosevarious loan categories are nonaccrual SBA loans totaling $22.7$21.4 million at March 31, 2024June 30, 2024, or 63.8%,64.8% of total nonaccrual loans, and which have $12.5$12.4 million in guarantees from the SBA.

As reflected in Note 4 to the accompanying consolidated financial statements, total classified loans decreased 0.1%10.7% to $54.1$48.4 million at March 31, 2024June 30, 2024 compared to $54.2 million at December 31, 2023. The majority of the decrease was attributable to "Home equity loans/lines of credit", "Construction, development & other land loans", and "Residential 1-4 family real estate"resulted from improvements in various loan categories, partially offset by an increase in commercialCommercial and industrial loans. Special mention loans increased 27.7%24.8% from $44.1 million at December 31, 2023 to $56.3$55.1 million at March 31, 2024June 30, 2024. The majority of the increase was attributable to commercialCommercial real estate - owner occupied and construction, development & other land loans.occupied.

Allowance for Credit Losses, Allowance for Unfunded Commitments, and Loan Loss Experience

The total allowance for credit losses amounted to $110.1 million at March 31, 2024June 30, 2024 compared to $109.9 million at December 31, 2023. Fluctuations in the ACL are based on loan mix and growth, changes in the levels of nonperforming loans, economic forecasts impacting loss drivers, other assumptions and inputs to the CECL model, and as occurred in 2023, adjustments for acquired loan portfolios. As discussed previously in the "Provision for Credit Losses and Provision for Unfunded Commitments" section, much of the change to the level of ACL during the period ended March 31, 2024 is attributedJune 30, 2024 was primarily related to slower prepayment assumptions and updated economic forecasts which are a key assumption in the CECL model and which indicated improvement in some factors, but also to a continued deteriorationreduction of the commercial real estate pricing index, thus projecting a higher allowance for credit losses balance, partially offset by reductions in loan balances during the period.

The ACL reflects our estimate of life of loan expected credit losses that will result from the inability of our borrowers to make required loan payments. We use systematic methodologies to determine the ACL for loans and the allowance for certain off-balance-sheet credit exposures. We consider the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The ACL is calculated using collectively evaluated pools for loans with similar risk characteristics applying the discounted cash flow ("DCF")

method. When a loan no longer shares similar risk characteristics with its segment, the loan is evaluated on an individual basis applying a DCF or asset approach for collateral-dependent loans.

For the periods indicated, the following table summarizes our balances of loans outstanding, average loans outstanding, ACL, charge-offs and recoveries, and key ratios:

($ in thousands)	*($ in thousands)*	Three Months Ended March 31, 2024	Twelve Months Ended December 31, 2023	Three Months Ended March 31, 2023	*($ in thousands)*	Six Months Ended June 30, 2024	Twelve Months Ended December 31, 2023	Six Months Ended June 30, 2023
Loans outstanding at end of period								
Average amount of loans outstanding								
Allowance for credit losses, at period end								
Total charge-offs								
Total charge-offs								
Total charge-offs								
Total recoveries								
Net charge-offs								
Ratios:								
Ratios:								
Ratios:								

Net charge-offs as a percent of average loans (annualized)								
Net charge-offs as a percent of average loans (annualized)								
Net charge-offs as a percent of average loans (annualized)		0.08 %	0.08 %	0.09 %		0.08 %	0.08 %	0.06 %
Allowance for credit losses as a percent of loans at end of period	Allowance for credit losses as a percent of loans at end of period	1.36 %	1.35 %	1.36 %	Allowance for credit losses as a percent of loans at end of period	1.36 %	1.35 %	1.38 %
Recoveries of loans previously charged-off as a percent of loans charged-off		25.01 %	36.37 %	37.73 %				

While our estimate of the ACL involves a high degree of judgment, we believe the ACL is was adequate at each period end presented. Our assessment of the ACL involves uncertainty and judgment and is subject to change in future periods. The amount of any changes could be significant if the assessment of loan quality or collateral values changes substantially with respect to one or more loan relationships or portfolios or if there is a significant change in the reasonable and supportable forecast or assumptions used to model our expected credit losses. No assurance can be given that we will not in any particular period sustain loan losses that are sizable in relation to the amounts reserved or that subsequent evaluations of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the ACL or future charges to earnings. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our ACL and the value of our collateral-dependent loans. Such agencies may require us to recognize adjustments to the ACL based on their judgments about information available at the time of their examinations. Refer also to “Critical Accounting Policies – Allowance for Credit Losses on Loans and Allowance for Unfunded Commitments” in Note 1 to the 2023 Annual Report on Form 10-K filed with the SEC for more information.

In addition to the ACL on loans, we maintain an allowance for lending-related commitments such as unfunded loan commitments. We estimate expected credit losses associated with these commitments over the contractual period in which we are exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable. The allowance for lending-related commitments on off-balance sheet credit exposures is adjusted as a component of the provision for credit losses expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The allowance for unfunded commitments of $10.8 million $9.9 million and $14.4 million $11.4 million at March 31, 2024 June 30, 2024 and December 31, 2023, respectively, are is classified on the consolidated balance sheets within "Other liabilities." The decline in the level of the allowance between periods was driven by the reduction in reserve rates and balances of available lines of credit during three the six months ended March 31, 2024 June 30, 2024.

Liquidity, Commitments, and Contingencies

Our liquidity is determined by our ability to convert assets to cash or acquire alternative sources of funds to meet the needs of our customers who are withdrawing or borrowing funds, and to maintain required reserve levels, pay expenses and operate the Company on an ongoing basis. Our primary liquidity sources are net income from operations, cash and due from banks, federal funds sold and other short-term investments. Our securities portfolio has a high percentage of amortizing mortgage-backed securities generating monthly cash flows. In addition, the portfolio is comprised almost entirely of readily marketable securities, which could also be sold to provide cash. We also maintain available lines of credit from the FHLB and the Federal Reserve, as well as federal funds lines from several correspondent banks which are summarized below.

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At March 31, 2024 June 30, 2024, the Company had three the following sources of readily available borrowing capacity:

- A line of credit with the FHLB of approximately $1.4 billion which can be structured as either short-term or long-term borrowings, depending on the particular funding or liquidity need, and is secured by a blanket lien on most of our real estate loan portfolio, select securities from our investment portfolio, and our FHLB stock (of which $0.8 million $826 thousand and $280.9 million were outstanding at March 31, 2024 June 30, 2024 and December 31, 2023, respectively);
- Federal funds lines with several correspondent banks totaling $265.0 million, which provide for overnight unsecured federal funds purchased (of which none were outstanding at March 31, 2024 June 30, 2024 or December 31, 2023).
- A $292.6 million line of credit through the Federal Reserve's Bank Term Funding Program ("BTFP") secured by select investment securities (of which $231.0 million and $249.0 million was outstanding at March 31, 2024 and December 31, 2023, respectively). Effective March 11, 2024, the Federal Reserve terminated the BTFP and no additional advances were available;); and,
- A line of credit with the Federal Reserve through its discount window borrowing program of approximately $548.1 $770.7 million which is secured by a blanket lien on a portion of our commercial and consumer loan portfolio (excluding real estate loans) and specific investment securities. All of this line was available at March 31, 2024 both June 30, 2024 and December 31, 2023.

Our overall on-balance sheet liquidity ratio was 15.5% 16.3% at March 31, 2024. June 30, 2024 compared to 14.6% at December 31, 2023. We define our liquidity ratio as net liquid assets (cash, unpledged securities and other marketable assets) as a percentage of our net liabilities (unpledged deposits and borrowings). Our total liquidity ratio, including the $2.3 $2.4 billion in available lines of credit at quarter end, was 31.4% 34.2% as of March 31, 2024 June 30, 2024. Not included in these ratios are the readily available sources of funds through brokered deposits. As of June 30, 2024, our brokered deposits availability was $1.8 billion per our internal policy.

The amount and timing of our contractual obligations and commercial commitments have not changed materially since December 31, 2023, the detail of which is presented in the "Contractual Obligations and Other Commercial Commitments" table of our 2023 Annual Report on Form 10-K. In addition, we are not involved in any legal proceedings that, in our opinion, could have a material effect on our consolidated financial position.

Off-Balance Sheet Arrangements and Derivative Financial Instruments

Off-balance sheet arrangements include transactions, agreements, or other contractual arrangements pursuant to which we have obligations or provide guarantees on behalf of an unconsolidated entity. We have no off-balance sheet arrangements of this kind other than letters of credit and repayment guarantees associated with our trust preferred securities and subordinated debentures.

In the normal course of business, we are exposed to certain risk risks arising from both its our business operations and economic conditions. As an element of our risk management strategies, we may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Derivative financial instruments include futures, forwards, interest rate swaps, options contracts, and other financial instruments with similar characteristics.

We do not engage in significant derivatives activities, however, in 2023 to accommodate customers, we implemented a program whereby we enter into interest rate swaps with certain commercial loan customers, with offsetting positions to dealers under a back-to-back swap program. At March 31, 2024 June 30, 2024, the Company's derivative financial instruments consisted entirely of customer back-to-back interest rate swaps which are not designated as hedges. Under this program, the Company executes interest rate swaps with commercial banking customers to facilitate their risk management strategies. Those interest rate swaps are simultaneously economically hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program are not designated as hedging instruments, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings. There have been no material changes from the derivative positions discussed in Note 13 of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Capital Resources

The Company is regulated by the Federal Reserve and is subject to the securities registration and public reporting regulations of the SEC. Our Bank is also regulated by the Federal Reserve and the North Carolina Office of the Commissioner of Banks ("NCCOB"). We must comply with regulatory capital requirements established by the

Federal Reserve and the NCCOB. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. We are not aware of any recommendations of regulatory authorities or otherwise which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

Under Basel III standards and capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Federal Reserve's capital standards require us to maintain minimum ratios of “common equity tier 1” capital to total risk-weighted assets, “tier 1” capital to total risk-weighted assets, and total capital to risk-weighted assets of 4.50%, 6.00% and 8.00%, respectively. Common equity tier 1 capital is comprised of common stock and related surplus, plus retained earnings, and is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities. Tier 1 capital is comprised of common equity tier 1 capital plus "additional tier 1 capital", which includes non-cumulative perpetual preferred stock and trust preferred securities. Total risk-based capital is comprised of tier 1 capital plus qualifying subordinated debentures, and certain adjustments, the largest of which is our ACL and allowance for unfunded commitments. The Company has elected to exclude AOCI related primarily to available for sale securities from common equity tier 1 capital. Risk-weighted assets refer to our on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in Federal Reserve regulations.

In addition to the risk-based capital requirements described above, we are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital (as defined above) to quarterly average total assets of 3.00% to 5.00%, depending upon the institution's composite ratings as determined by its regulators. The Federal Reserve has not advised us of any requirement specifically applicable to us.

At March 31, 2024 June 30, 2024, our capital ratios exceeded the regulatory minimum ratios discussed above. The capital ratios at March 31, 2024 June 30, 2024 increased as compared to year end related primarily to retention of earnings increasing capital, combined with loan reductions and shifts in asset mix to lower risk-weighted assets. The following table presents the capital ratios for the Company and the regulatory minimums discussed above for the periods indicated:

		March 31, 2024	December 31, 2023	
		June 30, 2024	December 31, 2023	Minimum required
Risk-based capital ratios:	**Risk-based capital ratios:**			

Common equity Tier 1 to Tier 1 risk weighted assets	Common equity Tier 1 to Tier 1 risk weighted assets	13.50 %	13.20 %			
Minimum required Common Equity Tier 1 capital		7.00 %	7.00 %			
Common equity Tier 1 to Tier 1 risk weighted assets						
Common equity Tier 1 to Tier 1 risk weighted assets		13.99 %	13.20 %	7.00 %		
Tier I capital to Tier 1 risk weighted assets						
Tier I capital to Tier 1 risk weighted assets						
Tier I capital to Tier 1 risk weighted assets		14.29 %	13.99 %	14.79 %	13.99 %	8.50 %
Minimum required Tier 1 capital		8.50 %	8.50 %			
Total risk-based capital to Tier II risk weighted assets						
Total risk-based capital to Tier II risk weighted assets						
Total risk-based capital to Tier II risk weighted assets		15.85 %	15.54 %	16.24 %	15.54 %	10.50 %
Minimum required total risk-based capital		10.50 %	10.50 %			
Leverage capital ratio:						
Leverage capital ratio:						
Leverage capital ratio:						
Tier 1 capital to quarterly average total assets						
Tier 1 capital to quarterly average total assets						
Tier 1 capital to quarterly average total assets		10.99 %	10.91 %	11.24 %	10.91 %	4.00 %
Minimum required Tier 1 leverage capital		4.00 %	4.00 %			

The Bank is also subject to capital requirements that do not vary materially from the Company's capital ratios presented above. At March 31, 2024 June 30, 2024, the Bank exceeded the minimum ratios established by the regulatory authorities.

In addition to regulatory capital ratios, we also closely monitor our ratio of tangible common equity ("TCE") to tangible assets, which is a non-GAAP financial measure. The TCE ratio was 7.48% 7.90% at March 31, 2024 June 30, 2024 compared to 7.42% 7.56% at December 31, 2023.

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The following table reconciles common equity to TCE and provides the calculation of the TCE ratio:

($ in thousands)	($ in thousands)	March 31, 2024	December 31, 2023	($ in thousands)	June 30, 2024	December 31, 2023
Reconciliation of Common Equity to TCE						
Total shareholders' common equity						
Total shareholders' common equity						
Total shareholders' common equity						
Less: Goodwill and other intangibles						
Less: Goodwill and other intangibles, net of related taxes						
Tangible common equity						
Reconciliation of Total Assets to Tangible Assets						
Total assets						
Total assets						
Total assets						
Less: Goodwill and other intangibles						
Less: Goodwill and other intangibles, net of related taxes						
Tangible assets						
TCE divided by Tangible Assets	TCE divided by Tangible Assets	7.48 %	7.42 %	TCE divided by Tangible Assets	7.90 %	7.56 %

Stock Repurchase Plans

On January 30, 2024, the Board of Directors of the Company authorized the repurchase of up to $40 million in shares of the Company's common stock. If any such repurchases were to occur in the future, they would be made pursuant to a plan approved by and containing provisions about the timing, purchase prices and quantities purchased determined by management in its discretion. During the quarter ended March 31, 2024 June 30, 2024, the Company did not maintain, adopt, modify or terminate a stock repurchase plan operated under the provisions of Rules 10b-18 or Rule 10b5-1(c) of the SEC or otherwise.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. The Company's market risk is composed primarily of interest rate risk inherent in the normal course of lending and deposit-taking activities. We are also exposed to market risk in our investing activities. We do not have any trading assets or activities.

Interest Rate Risk

Net interest income is our most significant component of earnings and we consider interest rate risk to be our most significant market risk. Our net interest income results from the difference between the yields we earn on our interest-earning assets, primarily loans and investments, and the rates that we pay on our interest-bearing liabilities, primarily deposits and borrowings. When interest rates change, the yields we earn on our interest-earning assets and the rates we pay on our interest-bearing liabilities do not necessarily move in tandem with each other because of the difference between their maturities and repricing characteristics and which can negatively impact net interest income.

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but such changes could also affect the average duration of our mortgage portfolio, investment securities and other interest-earning assets.

Our goal is to structure our asset/liability composition to maximize net interest income while managing interest rate risk so as to minimize the adverse impact of changes in interest rates on net interest income and capital in either a rising or declining interest rate environment. Profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates will generally may impact our earnings adversely because the interest rates of the underlying assets and liabilities do not change at the same speed, to the same extent or on the same basis.

Interest rate risk is monitored through the use of several complementary modeling tools, primarily earnings simulation modeling, and economic value simulation (net present value estimation). These models measure changes in a variety of interest rate scenarios. While interest rate risk models have limitations, taken together they represent a reasonably comprehensive view of the magnitude of our interest rate risk, the level of risk through time, and the amount of exposure to changes in certain interest rate relationships. Earnings simulation and economic

value models are utilized by management on a regular basis as they more effectively measure the cash flow and optionality impacts than does a static gap analysis. From the various model results and our expectations regarding future interest rate movements, the national, regional and local economies, and other financial and business risk factors, we quantify the overall magnitude of interest sensitivity risk and then determine appropriate strategies and practices governing asset growth and pricing, funding sources and pricing, and off-balance sheet commitments.

Earnings Simulation Analysis

We use net interest income simulations which measure the short-term earnings exposure from changes in market rates of interest. The model calculates an earnings estimate based on current and projected balances and rates, incorporating our current financial position with assumptions regarding future business to calculate net interest income under varying hypothetical rate scenarios. This method is subject to the accuracy of the assumptions that underlie the process, but it provides a better analysis of the sensitivity of earnings to changes in interest rates than other analyses, such as the static gap analysis.

Assumptions used in the model are derived from historical trends and management's outlook. The model assumes a static balance sheet with cash flows reinvested in similar instruments to maintain the balance sheet levels and current composition. Actual cash flows and repricing characteristics for our balance sheet instruments are input to the model. The model incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment rate of certain assets and liabilities. Because these assumptions are inherently uncertain, actual results may differ from simulated results.

Different interest rate scenarios and yield curves are used to measure the sensitivity of earnings to changing interest rates in both a "shocked" instantaneous move and a "ramped" move of rates. Interest rates on different asset and liability accounts move differently when the prime rate changes and such assumptions are reflected in the different rate scenarios. The model does not take into account any future actions that management may take to mitigate the impact of interest rate changes, and it is our strategy to proactively change the volume and mix of our balance sheet in order to mitigate our interest rate risk.

There has been no significant change in the Company's estimated net interest income sensitivity position from December 31, 2023. From a net interest income perspective, the Company generally has been a fairly neutral historically with no significant change interest sensitivity position in the short-term (within a twelve-month period) and within the lower ranges (+ - 100-200 basis points) of interest rate changes. Starting in 2022 and continuing through 2023, With the Company's sensitivity position shifted somewhat such that, in the short-term it is projected that current inverted interest rate yield curve, modeling of net interest income will likely fall in both a rising and falling changing rate environment. This position is due in part to environments presents particular challenges. As of June 30, 2024, the changing market characteristics of certain loan and deposit products as well as to the current shape of the yield curve. The Company's current position is now more liability-sensitive which generally implies that net interest income would be expected to rise sensitivity indicates neutral impact in rising rates over a one year period, but a slight asset sensitive position in falling rate environment and fall in rates over a rising rate environment. However, the rapid rate increases in 2022 and into 2023 resulted in one year period; however, a steepening of the yield curve on reduces the short end (within one year), while the longer end impact of the a 200 basis point reduction in rates to less than 3% of net interest income. The interest rate yield curve has remains flat/inverted between one and ten years, meaning that the yield on short-term instruments (less than one year) are higher than longer-term instruments (ten years) as of June 30, 2024. A flat or inverted interest rate yield curve is an unfavorable interest rate environment for many financial institutions, including the Bank, as short-term interest rates generally drive our deposit pricing and longer-term interest rates generally drive loan pricing. When these rates converge or invert, the profit spread we realize between loan yields and deposit rates narrows, which pressures our NIM. NIM, as was the case in 2022 and 2023.

With regard to rising rates, with an immediate increase or shock in market rates over the short-term (twelve month horizon), we would expect to realize a decline substantially no change in net interest income. This is due in part to the composition of our loan portfolio which is comprised of approximately 20% variable rate loans which could immediately reprice, thus limiting the magnitude of the impact of rate increases given that the majority of our portfolio is at fixed rates. In addition, the model includes an assumption of a quick repricing up of the funding base in a rising rate environment, and our recent shift to higher-cost wholesale funding and short-term borrowings in our funding mix has lead to a narrowing of the interest rate spread in the projection. As previously noted, these assumptions are inherently uncertain, and actual results may differ from simulated results. The current indication is that the market rates may begin to stabilize. However, the consensus is that the Federal Reserve will not start to reduce rates until late 2024 or into 2025. We would expect net interest income to decline somewhat in a decreasing interest rate environment, as interest-earning assets reprice to lower rates and interest-bearing deposits repricing may lag given continued market competition for deposits.

Economic Value Simulation

Economic value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Economic values are calculated based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities assuming a liquidation of the current balance sheet. The change in net economic value over different rate environments is an indication of the longer-term earnings capability of the balance sheet. The same assumptions are generally used in the

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economic value simulation as in the earnings simulation, including immediate and parallel rate shocks and static assumptions for deposit average decay rate and average lives.

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As of December 31, 2023, the Company's economic value of equity ("EVE") was generally liability sensitive in both a rising and falling interest rate environment, which continues to be the case. case as of June 30, 2024. In the rising rate scenarios, EVE declines and in the falling rate scenarios, EVE improves. The decline in EVE under a rising rate environment is driven by the composition of the loans and investment portfolios, primarily related to CRE fixed rate loans and fixed rate mortgage-back securities. In a rising rate environment, these portfolios tend to extend due to slower prepayments, thus lowering their relative valuation in the EVE calculation. With regard to the falling rate scenario, the since non-maturity deposits, generally with lower interest rate betas, continue to be at or near floor rates assumed in the model, thus within the -200 shocked interest rate scenario, essentially all of the non-maturity deposits their valuations are at or near their floor thus negatively impacting their value impacted in the EVE calculation while variable rate assets continue to price downward in all falling rate scenarios. scenarios, the falling rate scenarios reflect increasing values of EVE.

Additional discussion concerning our exposure to interest rate risk is presented in Item 7A of the 2023 Annual Report on Form 10-K filed with the SEC.

Inflation

Our financial statements have been prepared in accordance with GAAP, which requires the financial position and operating results to be measured principally in terms of historic dollars without considering the change in the relative purchasing power of money over time due to inflation.

Nearly all of the Company's assets and liabilities are monetary in nature, and as such, changes in interest rates (as discussed above) generally affect the financial condition of the Company to a greater degree than changes in the rate of inflation. Although interest rates are influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Inflation affects the Company's results of operations mainly through increased operating costs, and the impact of inflation on banks in general is normally not as significant as its influence on those businesses that have large investments in plant and inventories. We review pricing of our products and services, as well as our controllable operating and labor costs in light of current and expected costs due to inflation, to mitigate the inflationary impact on financial performance to the extent possible.

Item 4 – Controls and Procedures

As Management, under the supervision of March 31, 2024, and with the participation of our chief executive officer Chief Executive Officer and chief financial officer have carried out an evaluation of Chief Financial Officer, assessed the effectiveness of the design and operation of our the Company's disclosure controls and procedures, (as defined in Exchange Act Rule 13a–15(e) of the Securities Exchange Act of 1934 ("the Exchange Act"), which are our controls and other procedures that are designed to ensure that information required to be disclosed in our periodic reports with the SEC is recorded, processed, summarized and reported within the required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is communicated to our management to allow timely decisions regarding required disclosure.

Based on this assessment, the evaluation, our chief executive officer Chief Executive Officer and chief financial officer Chief Financial Officer concluded that as of the evaluation date, our disclosure controls and procedures were not as of June 30, 2024 are effective in allowing timely decisions regarding disclosure to be made about material information required to be included in our periodic reports with the SEC. The conclusion that our disclosure controls and procedures were not effective was due to

Other than the presence implementation of additional measures in connection with the remediation plan for the material weaknesses weakness discussed below, there has been no change in our internal control over financial reporting as which has occurred during, or subsequent to, the period covered by this report that term has materially affected, or is defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act, as previously disclosed in Part II, Item 9A reasonably likely to materially affect, our internal control over financial reporting.

Remediation of our 2023 Annual Report ("Item 9A"). In light of the material weakness identified by management, we have performed additional analyses and procedures in order to conclude that our condensed financial statements as of and for the three months ended March 31, 2024 are fairly presented, in all material respects, in accordance with GAAP, as further described below.

Description of Previously Disclosed Material Weaknesses and Management's Remediation Initiatives Weakness

As previously reported in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2023, management identified a material weakness in our internal control over financial reporting with respect related to information technology general controls in the area of user access management within an application supporting the Company's accounting and reporting processes, which resulted in certain segregation of duties conflicts. As such, certain of the Company's manual business process controls dependent upon the information derived from this application were also ineffective.

The Company and its Board Management has concluded that, as of Directors are committed to maintaining a strong internal control environment. As such, June 30, 2024, the following measures were implemented and in place prior to December 31, 2023:

- Privileged administrative access to material weakness has been effectively remediated. This conclusion is based on the application was removed for finance department personnel.
- Additional control design enhancements were implemented for user access provisioning, modification, and removals from the application to ensure all access changes to the application are subject to formal documentation and approval.

In addition to the actions taken during the fourth quarter completion of 2023, management continued implementation of the remaining remediation plan to enhance the design of information technology general controls during the quarter ended March 31, 2024. Specifically, management implemented the following additional measures to further ensure its controls and procedures are operating effectively:

- Ongoing monitoring activities, including testing of enhanced user provisioning controls.
- Evaluation control over a sufficient period of resources of finance department, including the time and hiring of additional personnel to enhance resources to ensure proper segregation of duties, within applications that support financial reporting processes.

While management continues to take steps towards implementing demonstrating their effectiveness in addressing the remediation plan, the material weakness will not be considered fully remediated until the controls have operated effectively, as evidenced through testing, for a sufficient amount of time.

However, after giving full consideration to the material weakness described above, and based on a number of other factors, including the measures implemented prior to March 31, 2024 to remediate the material weakness in internal control over financial reporting, and the performance of procedures by management designed to ensure that information required to be disclosed is communicated to our management to allow timely decisions regarding required disclosure, management has concluded that the consolidated financial statements included in this report on Form 10-Q present fairly, in all material respects, the Company's financial position, the results of its operations and its cash flows for each of the periods presented in conformity with GAAP and that disclosures to be made about material information required to be included in our periodic reports with the SEC were made timely and properly included in this report on Form 10-Q.

Other than the implementation of additional measures outlined in the remediation plan for the material weakness noted above, there has been no change in our internal control over financial reporting which has occurred during, or subsequent to, the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

previously identified deficiencies.

Part II. Other Information

Item 1 – Legal Proceedings

Various legal proceedings may arise in the ordinary course of business and may be pending or threatened against the Company and its subsidiaries. Neither the Company nor any of its subsidiaries are involved in any pending legal proceedings that management believes are material to the Company or its consolidated financial position. If an exposure were to be identified, it is the Company's policy to establish and accrue appropriate reserves during the accounting period in which a loss is deemed to be probable and the amount is determinable.

Item 1A – Risk Factors

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as well as cautionary statements contained in this Form 10-Q, including those under the caption "Forward-Looking Statements" set forth in the forepart of this Form 10-Q, risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC. There are no material changes from the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Item 5 – Other Information

5(c) Trading Arrangements of Section 16 Reporting Persons.

During the quarter ended March 31, 2024 June 30, 2024, no person who is required to file reports pursuant to Section 16(a) of the Securities and Exchange Act of 1934, as amended, with respect to holdings of, and transactions in, the Company's common shares (i.e. directors and certain officers of the Company) maintained, adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1(c) arrangement", as those terms are defined in Section 229.408 of the regulations of the SEC.

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Item 6 - Exhibits

The following exhibits are filed with this report or, as noted, are incorporated by reference. Except as noted below the exhibits identified have Securities and Exchange Commission File No. 000-15572. Management contracts, compensatory plans and arrangements are marked with an asterisk (*).

3.a	Articles of Incorporation of the Company and amendments thereto were filed as Exhibits 3.a.i through 3.a.v to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibits Exhibits 3.1 and 3.2 to the Company's Current Report on Form 8-K filed on January 13, 2009, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1.b to the Company's Registration Statement on Form S-3D filed on June 29, 2010 (Commission File No. 333-167856), and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 6, 2011, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 26, 2012, and are incorporated herein by reference. Articles of Amendment to the Articles of Incorporation were filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed June 14, 2022, and are incorporated herein by reference.
3.b	Amended and Restated Bylaws of the Company were filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 9, 2018, and are incorporated herein by reference.
4.a	Form of Common Stock Certificate was filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, and is incorporated herein by reference.
10.1	* First Bancorp 2024 Equity Plan was filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed on May 31, 2024 (Commission File No. 333-279858) and is incorporated herein by reference
31.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 June 30, 2024, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

Copies of exhibits are available upon written request to: First Bancorp, Elizabeth B. Bostian, Chief Financial Officer, Investor Relations, 300 SW Broad Street, Southern Pines, North Carolina, 28387

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SIGNATURES

Pursuant to the requirements 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.

FIRST BANCORP

May 8, August 7, 2024

BY:/s/ Richard H. Moore

Richard H. Moore
Chief Executive Officer
(Principal Executive Officer),
and Director

May 8, August 7, 2024

BY:/s/ Elizabeth B. Bostian

Elizabeth B. Bostian
Executive Vice President
and Chief Financial Officer

May 8, August 7, 2024

BY:/s/ Blaise B. Buczkowski T. Brent Hicks

Blaise B, Buczkowski T. Brent Hicks
Executive Vice President
and Chief Accounting Officer

Exhibit 31.1

Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Richard H. Moore, certify that:

1. I have reviewed this Form 10-Q of First Bancorp.;

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 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 13a-15(f) and 15d-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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (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 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 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:

(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.

May 8, August 7, 2024

/s/ Richard H. Moore
Richard H. Moore
Chief Executive Officer

Exhibit 31.2

Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Elizabeth B. Bostian, certify that:

1. I have reviewed this Form 10-Q of First Bancorp.;

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 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 13a-15(f) and 15d-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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (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 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 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:

   (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.

May 8, August 7, 2024

/s/ Elizabeth B. Bostian
Elizabeth B. Bostian
Chief Financial Officer

Exhibit 32.1

Chief Executive Officer
Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of First Bancorp (the "Company") on Form 10-Q for the period ended March 31, 2024 June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard H. Moore, Chief Executive Officer of 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 my knowledge:

(1) The Report fully complies with the requirements of Section 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.

/s/ Richard H. Moore
Richard H. Moore
Chief Executive Officer
May 8, August 7, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to First Bancorp and will be retained by First Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Chief Financial Officer
Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of First Bancorp (the "Company") on Form 10-Q for the period ended March 31, 2024 June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elizabeth B. Bostian, Chief Financial Officer of 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 my knowledge:

(1) The Report fully complies with the requirements of Section 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.

/s/ Elizabeth B. Bostian
Elizabeth B. Bostian
Chief Financial Officer
May 8, August 7, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to First Bancorp and will be retained by First Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

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