

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended September 30, 2024

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number: 000-28344

**FIRST COMMUNITY CORPORATION**

(Exact name of registrant as specified in its charter)

South Carolina  
(State or other jurisdiction of incorporation or organization)

57-1010751  
(I.R.S. Employer Identification No.)

5455 Sunset Boulevard, Lexington, South Carolina 29072  
(Address of principal executive offices) (Zip Code)

(803) 951-2265  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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

| Title of each class                      | Trading Symbol(s) | Name of exchange on which registered |
|--|-------------------|--------------------------------------|
| Common stock, par value \$1.00 per share | FCCO              | The Nasdaq Capital 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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically 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.

Large accelerated filer   
Non-accelerated Filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: On November 12, 2024, 7,640,648 shares of the issuer's common stock, par value \$1.00 per share, were issued and outstanding.

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**FIRST COMMUNITY CORPORATION  
CONSOLIDATED BALANCE SHEETS**

| (Dollars in thousands, except par values)  | September 30,<br>2024<br>(Unaudited) | December 31,<br>2023 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Cash and due from banks  | \$ 27,144                            | \$ 27,908            |
| Interest-bearing bank balances   | 144,354                              | 66,787               |
| Investment securities available-for-sale   | 269,553                              | 282,226              |
| Investment securities held-to-maturity, fair value of \$ 204,621 and \$205,518 at September 30, 2024 and December 31, 2023, respectively, net of allowance for credit losses — investments | 212,219                              | 217,170              |
| Other investments, at cost   | 5,054                                | 6,800                |
| Loans held-for-sale  | 3,935                                | 4,433                |
| Loans held-for-investment  | 1,196,659                            | 1,134,019            |
| Less, allowance for credit losses – loans  | 12,933                               | 12,267               |
| Net loans held-for-investment  | 1,183,726                            | 1,121,752            |
| Property and equipment – net   | 30,099                               | 30,589               |
| Lease right-of-use asset   | 2,546                                | 3,248                |
| Bank owned life insurance  | 30,769                               | 30,174               |
| Other real estate owned  | 544                                  | 622                  |
| Intangible assets  | 486                                  | 604                  |
| Goodwill   | 14,637                               | 14,637               |
| Other assets   | 18,482                               | 20,738               |
| Total assets   | <u>\$ 1,943,548</u>                  | <u>\$ 1,827,688</u>  |
| <b>LIABILITIES</b>   |                                      |                      |
| Deposits:  |                                      |                      |
| Non-interest bearing   | \$ 441,386                           | \$ 432,333           |
| Interest bearing   | 1,202,678                            | 1,078,668            |
| Total deposits   | 1,644,064                            | 1,511,001            |
| Securities sold under agreements to repurchase   | 66,933                               | 62,863               |
| Federal funds purchased  | 3,656                                | —                    |
| Federal Home Loan Bank advances  | 50,000                               | 90,000               |
| Junior subordinated debt   | 14,964                               | 14,964               |
| Lease liability  | 2,711                                | 3,426                |
| Other liabilities  | 17,908                               | 14,375               |
| Total liabilities  | <u>1,800,236</u>                     | <u>1,696,629</u>     |
| <b>SHAREHOLDERS' EQUITY</b>  |                                      |                      |
| Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized; none issued and outstanding   | —                                    | —                    |
| Common stock, par value \$1.00 per share; 20,000,000 shares authorized; issued and outstanding 7,640,648 at September 30, 2024 and 7,606,172 at December 31, 2023                          | 7,641                                | 7,606                |
| Nonvested restricted stock and stock units   | 2,397                                | 2,181                |
| Additional paid in capital   | 93,750                               | 93,167               |
| Retained earnings  | 62,747                               | 56,296               |
| Accumulated other comprehensive loss   | (23,223)                             | (28,191)             |
| Total shareholders' equity   | <u>143,312</u>                       | <u>131,059</u>       |
| Total liabilities and shareholders' equity   | <u>\$ 1,943,548</u>                  | <u>\$ 1,827,688</u>  |

See Notes to Consolidated Financial Statements

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

| (Dollars in thousands, except per share amounts)                   | Three Months ended September 30, |                        |
|--|----------------------------------|------------------------|
|  | 2024                             | 2023                   |
| <b>Interest and dividend income:</b>                               |                                  |                        |
| Loans, including fees  | \$ 17,279                        | \$ 13,804              |
| Investment securities – taxable                                    | 3,975                            | 4,229                  |
| Investment securities – non taxable                                | 355                              | 366                    |
| Other short term investments and CDs                               | 1,552                            | 335                    |
| Total interest income  | <u>23,161</u>                    | <u>18,734</u>          |
| <b>Interest expense:</b>   |                                  |                        |
| Deposits   | 8,287                            | 4,777                  |
| Securities sold under agreement to repurchase                      | 506                              | 446                    |
| Other borrowed money   | 956                              | 1,408                  |
| Total interest expense   | <u>9,749</u>                     | <u>6,631</u>           |
| Net interest income  | <u>13,412</u>                    | <u>12,103</u>          |
| (Release of) provision for credit losses                           | (16)                             | 474                    |
| Net interest income after (release of) provision for credit losses | <u>13,428</u>                    | <u>11,629</u>          |
| <b>Non-interest income:</b>  |                                  |                        |
| Deposit service charges  | 228                              | 240                    |
| Mortgage banking income  | 575                              | 511                    |
| Investment advisory fees and non-deposit commissions               | 1,595                            | 1,187                  |
| Loss on sale of securities   | —                                | (1,249)                |
| Gain on sale of other assets                                       | 5                                | 46                     |
| Other  | 1,167                            | 1,129                  |
| Total non-interest income  | <u>3,570</u>                     | <u>1,864</u>           |
| <b>Non-interest expense:</b>                                       |                                  |                        |
| Salaries and employee benefits                                     | 7,422                            | 6,613                  |
| Occupancy  | 793                              | 776                    |
| Equipment  | 391                              | 416                    |
| Marketing and public relations                                     | 477                              | 609                    |
| FDIC insurance assessments   | 290                              | 211                    |
| Other real estate expense, net                                     | 11                               | 21                     |
| Amortization of intangibles  | 40                               | 39                     |
| Other  | 2,567                            | 2,588                  |
| Total non-interest expense   | <u>11,991</u>                    | <u>11,273</u>          |
| Net income before tax  | <u>5,007</u>                     | <u>2,220</u>           |
| Income tax expense   | 1,146                            | 464                    |
| <b>Net income</b>  | <u><u>\$ 3,861</u></u>           | <u><u>\$ 1,756</u></u> |
| Basic earnings per common share                                    | \$ 0.51                          | \$ 0.23                |
| Diluted earnings per common share                                  | <u>\$ 0.50</u>                   | <u>\$ 0.23</u>         |

See Notes to Consolidated Financial Statements

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

| (Dollars in thousands, except per share amounts)      | Nine Months ended September 30, |                        |
|---|---------------------------------|------------------------|
|   | 2024                            | 2023                   |
| <b>Interest and dividend income:</b>                  |                                 |                        |
| Loans, including fees                                 | \$ 49,230                       | \$ 37,277              |
| Investment securities – taxable                       | 12,279                          | 12,513                 |
| Investment securities - non taxable                   | 1,070                           | 1,109                  |
| Other short term investments and CD's                 | 3,769                           | 1,222                  |
| Total interest income                                 | <u>66,348</u>                   | <u>52,121</u>          |
| <b>Interest expense:</b>                              |                                 |                        |
| Deposits  | 23,210                          | 10,162                 |
| Securities sold under agreement to repurchase         | 1,611                           | 1,165                  |
| Other borrowed money                                  | 3,344                           | 4,197                  |
| Total interest expense                                | <u>28,165</u>                   | <u>15,524</u>          |
| Net interest income                                   | 38,183                          | 36,597                 |
| Provision for credit losses                           | 567                             | 730                    |
| Net interest income after provision for credit losses | <u>37,616</u>                   | <u>35,867</u>          |
| <b>Non-interest income:</b>                           |                                 |                        |
| Deposit service charges                               | 722                             | 692                    |
| Mortgage banking income                               | 1,659                           | 1,040                  |
| Investment advisory fees and non-deposit commissions  | 4,461                           | 3,335                  |
| Loss on sale of securities                            | —                               | (1,249)                |
| Gain on sale of other assets                          | 5                               | 151                    |
| Other   | 3,549                           | 3,521                  |
| Total non-interest income                             | <u>10,396</u>                   | <u>7,490</u>           |
| <b>Non-interest expense:</b>                          |                                 |                        |
| Salaries and employee benefits                        | 21,826                          | 19,452                 |
| Occupancy   | 2,321                           | 2,419                  |
| Equipment   | 1,038                           | 1,129                  |
| Marketing and public relations                        | 1,301                           | 1,325                  |
| FDIC insurance assessments                            | 870                             | 614                    |
| Other real estate expense (income)                    | 113                             | (142)                  |
| Amortization of intangibles                           | 118                             | 118                    |
| Other   | 8,052                           | 7,549                  |
| Total non-interest expense                            | <u>35,639</u>                   | <u>32,464</u>          |
| Net income before tax                                 | 12,373                          | 10,893                 |
| Income tax expense                                    | 2,650                           | 2,347                  |
| <b>Net income</b>                                     | <b><u>\$ 9,723</u></b>          | <b><u>\$ 8,546</u></b> |
| Basic earnings per common share                       | <b><u>\$ 1.28</u></b>           | <b><u>\$ 1.13</u></b>  |
| Diluted earnings per common share                     | <b><u>\$ 1.26</u></b>           | <b><u>\$ 1.12</u></b>  |

See Notes to Consolidated Financial Statements

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

| (Dollars in thousands)  | <b>Three months ended September 30,</b> |             |
|---|---|-------------|
|   | <b>2024</b>                             | <b>2023</b> |
| Net income  | \$ 3,861                                | \$ 1,756    |
| Other comprehensive income (loss):  |   |             |
| Unrealized gain (loss) during the period on available-for-sale securities, net of tax expense of \$ 991 and tax benefit of \$768, respectively  | 3,723                                   | (2,891)     |
| Reclassification adjustment for loss included in net income, net of tax benefit of \$ 0 and \$262, respectively   | —                                       | 987         |
| Reclassification adjustment for amortization of unrealized losses on securities transferred from available-for-sale to held-to-maturity, net of tax expense of \$90 and \$89, respectively.   | 342                                     | 335         |
| Other comprehensive income (loss)   | 4,065                                   | (1,569)     |
| Comprehensive income  | \$ 7,926                                | \$ 187      |
| <b>Nine months ended September 30,</b>  |   |             |
| (Dollars in thousands)  | <b>2024</b>                             | <b>2023</b> |
|   | \$ 9,723                                | \$ 8,546    |
| Net income  |   |             |
| Other comprehensive income (loss):  |   |             |
| Unrealized gain during the period on available-for-sale securities, net of tax expense of \$ 1,049 and tax benefit of \$701, respectively   | 3,947                                   | (2,639)     |
| Reclassification adjustment for loss included in net income, net of tax benefit of \$ 0 and \$262, respectively   | —                                       | 987         |
| Reclassification adjustment for amortization of unrealized losses on securities transferred from available-for-sale to held-to-maturity, net of tax expense of \$271 and \$261, respectively. | 1,021                                   | 981         |
| Other comprehensive income (loss)   | 4,968                                   | (671)       |
| Comprehensive income  | \$ 14,691                               | \$ 7,875    |

See Notes to Consolidated Financial Statements

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Uaudited)

| (Dollars in thousands)                                      | Common<br>Shares<br>Issued | Common<br>Stock | Additional<br>Paid-in<br>Capital | Nonvested<br>Restricted<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total             |
|---|----------------------------|-----------------|----------------------------------|----------------------------------|----------------------|---|-------------------|
| <b>Balance, December 31, 2023</b>                           | 7,606                      | \$ 7,606        | \$ 93,167                        | \$ 2,181                         | \$ 56,296            | \$ (28,191)                                   | \$ 131,059        |
| Net income  | —                          | —               | —                                | —                                | 9,723                | —   | 9,723             |
| Other comprehensive income net of tax expense of \$1,320    | —                          | —               | —                                | —                                | —                    | 4,968   | 4,968             |
| Issuance of common stock-share based compensation           | 9                          | 9               | 160                              | (273)                            | —                    | —   | (104)             |
| Issuance of restricted stock                                | 14                         | 14              | 232                              | (246)                            | —                    | —   | —                 |
| Grant restricted stock units                                | —                          | —               | —                                | 129                              | —                    | —   | 129               |
| Amortization of compensation on restricted stock            | —                          | —               | —                                | 606                              | —                    | —   | 606               |
| Shares forfeited  | (6)                        | (6)             | (103)                            | —                                | —                    | —   | (109)             |
| Dividends: Common (\$0.43 per share)                        | —                          | —               | —                                | —                                | (3,272)              | —   | (3,272)           |
| Dividend reinvestment plan                                  | 18                         | 18              | 294                              | —                                | —                    | —   | 312               |
| <b>Balance, September 30, 2024</b>                          | <u>7,641</u>               | <u>\$ 7,641</u> | <u>\$ 93,750</u>                 | <u>\$ 2,397</u>                  | <u>\$ 62,747</u>     | <u>\$ (23,223)</u>                            | <u>\$ 143,312</u> |
| <b>Balance, December 31, 2022</b>                           | 7,578                      | \$ 7,578        | \$ 92,683                        | \$ 1,461                         | \$ 49,025            | \$ (32,386)                                   | \$ 118,361        |
| Net income  | —                          | —               | —                                | —                                | 8,546                | —   | 8,546             |
| Adoption of new accounting standard-CECL net of tax of \$90 | —                          | —               | —                                | —                                | (337)                | —   | (337)             |
| Other comprehensive loss net of tax benefit of \$178        | —                          | —               | —                                | —                                | —                    | (671)   | (671)             |
| Issuance of common stock-share based compensation           | 2                          | 2               | 39                               | (69)                             | —                    | —   | (28)              |
| Issuance of restricted stock                                | 8                          | 8               | 146                              | (154)                            | —                    | —   | —                 |
| Grant restricted stock units                                | —                          | —               | —                                | 143                              | —                    | —   | 143               |
| Amortization of compensation on restricted stock            | —                          | —               | —                                | 548                              | —                    | —   | 548               |
| Shares forfeited  | (6)                        | (6)             | (105)                            | —                                | —                    | —   | (111)             |
| Dividends: Common (\$0.42 per share)                        | —                          | —               | —                                | —                                | (3,175)              | —   | (3,175)           |
| Dividend reinvestment plan                                  | 18                         | 18              | 307                              | —                                | —                    | —   | 325               |
| <b>Balance, September 30, 2023</b>                          | <u>7,600</u>               | <u>\$ 7,600</u> | <u>\$ 93,070</u>                 | <u>\$ 1,929</u>                  | <u>\$ 54,059</u>     | <u>\$ (33,057)</u>                            | <u>\$ 123,601</u> |

See Notes to Consolidated Financial Statements

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Uaudited)

| (Dollars in thousands)                                   | Common<br>Shares<br>Issued | Common<br>Stock | Additional<br>Paid-in<br>Capital | Nonvested<br>Restricted<br>Stock and<br>Stock Units | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total             |
|--|----------------------------|-----------------|----------------------------------|---|----------------------|---|-------------------|
| <b>Balance, December 31, 2023</b>                        | 7,606                      | \$ 7,606        | \$ 93,167                        | \$ 2,181  | \$ 56,296            | \$ (28,191)                                   | \$ 131,059        |
| Net income   | —                          | —               | —                                | —   | 2,597                | —   | 2,597             |
| Other comprehensive income, net of tax expense of \$11   | —                          | —               | —                                | —   | —                    | 749   | 749               |
| Issuance of common stock-share based compensation        | 9                          | 9               | 160                              | (273)   | —                    | —   | (104)             |
| Issuance of restricted stock                             | 14                         | 14              | 228                              | (242)   | —                    | —   | —                 |
| Grant restricted stock units                             | —                          | —               | —                                | 70  | —                    | —   | 70                |
| Amortization of compensation on restricted stock         | —                          | —               | —                                | 184   | —                    | —   | 184               |
| Shares forfeited   | (6)                        | (6)             | (97)                             | —   | —                    | —   | (103)             |
| Dividends: Common (\$0.14 per share)                     | —                          | —               | —                                | —   | (1,063)              | —   | (1,063)           |
| Dividend reinvestment plan                               | 6                          | 6               | 98                               | —   | —                    | —   | 104               |
| <b>Balance, March 31, 2024</b>                           | <u>7,629</u>               | <u>\$ 7,629</u> | <u>\$ 93,556</u>                 | <u>\$ 1,920</u>                                     | <u>\$ 57,830</u>     | <u>\$ (27,442)</u>                            | <u>\$ 133,493</u> |
| Net income   | —                          | —               | —                                | —   | 3,265                | —   | 3,265             |
| Other comprehensive income net of tax expense of \$80    | —                          | —               | —                                | —   | —                    | 154   | 154               |
| Issuance of restricted stock                             | —                          | —               | 4                                | (4)   | —                    | —   | —                 |
| Grant restricted stock units                             | —                          | —               | —                                | 29  | —                    | —   | 29                |
| Amortization of compensation on restricted stock         | —                          | —               | —                                | 211   | —                    | —   | 211               |
| Shares forfeited   | —                          | —               | (6)                              | —   | —                    | —   | (6)               |
| Dividends: Common (\$0.14 per share)                     | —                          | —               | —                                | —   | (1,066)              | —   | (1,066)           |
| Dividend reinvestment plan                               | 6                          | 6               | 93                               | —   | —                    | —   | 99                |
| <b>Balance, June 30, 2024</b>                            | <u>7,635</u>               | <u>\$ 7,635</u> | <u>\$ 93,647</u>                 | <u>\$ 2,156</u>                                     | <u>\$ 60,029</u>     | <u>\$ (27,288)</u>                            | <u>\$ 136,179</u> |
| Net income   | —                          | —               | —                                | —   | 3,861                | —   | 3,861             |
| Other comprehensive income net of tax expense of \$1,229 | —                          | —               | —                                | —   | —                    | 4,065   | 4,065             |
| Grant restricted stock units                             | —                          | —               | —                                | 30  | —                    | —   | 30                |
| Amortization of compensation on restricted stock         | —                          | —               | —                                | 211   | —                    | —   | 211               |
| Dividends: Common (\$0.15 per share)                     | —                          | —               | —                                | —   | (1,143)              | —   | (1,143)           |
| Dividend reinvestment plan                               | 6                          | 6               | 103                              | —   | —                    | —   | 109               |
| <b>Balance, September 30, 2024</b>                       | <u>7,641</u>               | <u>\$ 7,641</u> | <u>\$ 93,750</u>                 | <u>\$ 2,397</u>                                     | <u>\$ 62,747</u>     | <u>\$ (23,223)</u>                            | <u>\$ 143,312</u> |

See Notes to Consolidated Financial Statements

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Uaudited)

| (Dollars in thousands)                                  | Common<br>Shares<br>Issued | Common<br>Stock | Additional<br>Paid-in<br>Capital | Nonvested<br>Restricted<br>Stock and<br>Stock Units | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Total             |
|---|----------------------------|-----------------|----------------------------------|---|----------------------|--|-------------------|
| <b>Balance, December 31, 2022</b>                       | 7,578                      | \$ 7,578        | \$ 92,683                        | \$ 1,461  | \$ 49,025            | \$ (32,386)  | \$ 118,361        |
| Net income  | —                          | —               | —                                | —   | 3,463                | —  | 3,463             |
| Adoption of CECL, net of tax                            | —                          | —               | —                                | —   | (337)                | —  | (337)             |
| Other comprehensive income, net of tax<br>expense       | —                          | —               | —                                | —   | —                    | 2,913  | 2,913             |
| Issuance of common stock                                | 2                          | 2               | 39                               | (69)  | —                    | —  | (28)              |
| Issuance of restricted stock                            | 8                          | 8               | 146                              | (154)   | —                    | —  | —                 |
| Grant restricted stock units                            | —                          | —               | —                                | 72  | —                    | —  | 72                |
| Amortization of compensation on restricted<br>stock     | —                          | —               | —                                | 191   | —                    | —  | 191               |
| Shares forfeited  | (5)                        | (5)             | (100)                            | —   | —                    | —  | (105)             |
| Dividends: Common (\$0.13 per share)                    | —                          | —               | —                                | —   | (1,057)              | —  | (1,057)           |
| Dividend reinvestment plan                              | 5                          | 5               | 103                              | —   | —                    | —  | 108               |
| <b>Balance, March 31, 2023</b>                          | <b>7,588</b>               | <b>\$ 7,588</b> | <b>\$ 92,871</b>                 | <b>\$ 1,501</b>                                     | <b>\$ 51,094</b>     | <b>\$ (29,473)</b>                                     | <b>\$ 123,581</b> |
| Net income  | —                          | —               | —                                | —   | 3,327                | —  | 3,327             |
| Other comprehensive loss net of tax benefit<br>of \$536 | —                          | —               | —                                | —   | —                    | (2,015)  | (2,015)           |
| Amortization of compensation on restricted<br>stock     | —                          | —               | —                                | 179   | —                    | —  | 179               |
| Grant restricted stock units                            | —                          | —               | —                                | 37  | —                    | —  | 37                |
| Shares forfeited  | —                          | —               | (5)                              | —   | —                    | —  | (5)               |
| Dividends: Common (\$0.14 per share)                    | —                          | —               | —                                | —   | (1,059)              | —  | (1,059)           |
| Dividend reinvestment plan                              | 6                          | 6               | 97                               | —   | —                    | —  | 103               |
| <b>Balance, June 30, 2023</b>                           | <b>7,594</b>               | <b>\$ 7,594</b> | <b>\$ 92,963</b>                 | <b>\$ 1,717</b>                                     | <b>\$ 53,362</b>     | <b>\$ (31,488)</b>                                     | <b>\$ 124,148</b> |
| Net income  | —                          | —               | —                                | —   | 1,756                | —  | 1,756             |
| Other comprehensive loss net of tax benefit<br>of \$417 | —                          | —               | —                                | —   | —                    | (1,569)  | (1,569)           |
| Amortization of compensation on restricted<br>stock     | —                          | —               | —                                | 178   | —                    | —  | 178               |
| Grant restricted stock units                            | —                          | —               | —                                | 34  | —                    | —  | 34                |
| Dividends: Common (\$0.14 per share)                    | —                          | —               | —                                | —   | (1,059)              | —  | (1,059)           |
| Dividend reinvestment plan                              | 6                          | 6               | 107                              | —   | —                    | —  | 113               |
| <b>Balance, September 30, 2023</b>                      | <b>7,600</b>               | <b>\$ 7,600</b> | <b>\$ 93,070</b>                 | <b>\$ 1,929</b>                                     | <b>\$ 54,059</b>     | <b>\$ (33,057)</b>                                     | <b>\$ 123,601</b> |

**FIRST COMMUNITY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

| (Dollars in thousands)   | Nine months ended<br>September 30, |                  |
|--|------------------------------------|------------------|
|  | 2024                               | 2023             |
| <b>Cash flows from operating activities:</b>   |                                    |                  |
| Net income   | \$ 9,723                           | \$ 8,546         |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                    |                  |
| Depreciation   | 1,285                              | 1,317            |
| Net premium amortization on investment securities available-for-sale   | (2,439)                            | (1,754)          |
| Net premium amortization on investment securities held-to-maturity   | (469)                              | (422)            |
| Provision for credit losses  | 567                                | 730              |
| Writedowns of other real estate owned  | 78                                 | —                |
| Origination of loans held-for-sale   | (55,334)                           | (36,003)         |
| Sale of loans held-for-sale  | 57,476                             | 32,273           |
| Gain on sale of loans held-for-sale  | (1,644)                            | —                |
| Gain on sale of other real estate owned  | (5)                                | (151)            |
| Amortization of intangibles  | 118                                | 118              |
| Accretion on acquired loans  | —                                  | (61)             |
| Loss on sale of securities   | —                                  | 1,249            |
| (Gain) loss on fair value of equity securities   | (20)                               | 2                |
| Increase in other assets   | 2,333                              | (3,942)          |
| Increase in other liabilities  | 3,012                              | 1,815            |
| Net cash provided by operating activities  | 14,681                             | 3,717            |
| <b>Cash flows from investing activities:</b>   |                                    |                  |
| Purchase of investment securities available-for-sale   | —                                  | (6,025)          |
| Purchase of other investment securities  | —                                  | (2,114)          |
| Maturity/call of investment securities available-for-sale  | 20,109                             | 17,089           |
| Maturity/call of investment securities held-to-maturity  | 5,426                              | 9,219            |
| Proceeds from sale of other investment securities  | 1,766                              | —                |
| Proceeds from sale of securities available-for-sale  | —                                  | 38,662           |
| Increase in loans  | (62,735)                           | (110,722)        |
| Proceeds from sale of other real estate owned  | —                                  | 419              |
| Purchase of property and equipment   | (800)                              | (966)            |
| Net disposals of property and equipment  | 5                                  | —                |
| Net cash used in investing activities  | (36,229)                           | (54,438)         |
| <b>Cash flows from financing activities:</b>   |                                    |                  |
| Increase in deposit accounts   | 133,063                            | 106,644          |
| (Increase) decrease in securities sold under agreements to repurchase  | (4,070)                            | (1,570)          |
| Increase (decrease) in Fed Funds Borrowed  | 3,656                              | (22,000)         |
| Advances from the Federal Home Loan Bank   | —                                  | 269,000          |
| Repayment of advances from the Federal Home Loan Bank  | (40,000)                           | (239,000)        |
| Shares retired / forfeited   | (109)                              | (111)            |
| Dividends paid: Common Stock   | (3,272)                            | (3,175)          |
| Restricted Stock Units Granted   | 129                                | 143              |
| Cost of issuance of common stock-deferred compensation   | (104)                              | (28)             |
| Change in non-vested restricted stock  | 606                                | 548              |
| Dividend reinvestment plan   | 312                                | 325              |
| Net cash provided by financing activities  | 98,351                             | 110,776          |
| Net increase in cash and cash equivalents  | 76,803                             | 60,055           |
| Cash and cash equivalents at beginning of period   | 94,695                             | 37,401           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 171,498</b>                  | <b>\$ 97,456</b> |
| <b>Supplemental disclosure:</b>  |                                    |                  |
| Cash paid during the period for:   |                                    |                  |
| Interest   | \$ 23,050                          | \$ 13,469        |
| Income taxes   | \$ 2,786                           | \$ 3,459         |
| Non-cash investing and financing activities:   |                                    |                  |
| Unrealized gain (loss) on available-for-sale securities, net of tax  | \$ 3,947                           | \$ (2,639)       |
| Amortization of unrealized losses on securities from transfer of available-for-sale securities to held-to-maturity, net of tax | 1,021                              | 981              |
| Recognition of operating lease liability   | —                                  | 825              |

See Notes to Consolidated Financial Statements

## **Notes to Consolidated Financial Statements (Unaudited)**

### **Note 1 - Nature of Business and Basis of Presentation**

#### *Basis of Presentation*

In the opinion of management, the accompanying unaudited consolidated balance sheets, and the consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows of First Community Corporation (the "Company") and its wholly owned subsidiary, First Community Bank (the "Bank") (collectively, the "Company") present fairly in all material respects the Company's financial position at September 30, 2024 and December 31, 2023, and the Company's results of operations for the three and nine months ended September 30, 2024 and 2023, and cash flows for the nine months ended September 30, 2024 and 2023. The results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Quarterly Reports on Form 10-Q. The information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 should be referred to in connection with these unaudited interim financial statements.

#### **Recently Issued Accounting Pronouncements**

The following is a summary of recent authoritative pronouncements:

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This amendment is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments require disclosure of incremental segment information on an annual and interim basis for all public entities. The amendments are effective for the Company for fiscal years beginning after December 15, 2023, and interim periods with fiscal years beginning after December 15, 2024. Early adoption is permitted.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This amendment is intended to enhance the transparency and decision usefulness of income tax disclosures by requiring public business entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. The amendments are effective for the Company for annual periods beginning after December 15, 2024. Early adoption is permitted.

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

#### ***Note 2 - Earnings Per Common Share***

Basic earnings per share is calculated by dividing net income by the weighted-average shares of common stock outstanding during the period, excluding non-vested restricted shares. Dilutive earnings per share is calculated by dividing net income by the weighted-average shares of common stock outstanding during the period plus the maximum dilutive effect on common stock issuable upon exercise of stock options or vesting of restricted stock units. Stock options and unvested restricted stock units are considered common stock equivalents and are only included in the calculation of dilutive earnings per common share if the effect is dilutive.

The following reconciles the numerator and denominator of the basic and diluted earnings per common share computation:

|   | Nine months<br>Ended September 30, |          | Three months<br>Ended September 30, |          |
|---|------------------------------------|----------|-------------------------------------|----------|
|   | 2024                               | 2023     | 2024                                | 2023     |
| <i>(In thousands except average market price and per share data)</i>  |                                    |          |                                     |          |
| Numerator (Net income available to common shareholders)               | \$ 9,723                           | \$ 8,546 | \$ 3,861                            | \$ 1,756 |
| Denominator   |                                    |          |                                     |          |
| Weighted average common shares outstanding for:                       |                                    |          |                                     |          |
| Basic shares  | 7,613                              | 7,564    | 7,623                               | 7,573    |
| Dilutive securities:  |                                    |          |                                     |          |
| Deferred compensation   | 82                                 | 85       | 99                                  | 82       |
| Diluted common shares outstanding                                     | 7,695                              | 7,649    | 7,722                               | 7,655    |
| Earnings per common share:  |                                    |          |                                     |          |
| Basic   | \$ 1.28                            | \$ 1.13  | \$ 0.51                             | \$ 0.23  |
| Diluted   | 1.26                               | 1.12     | 0.50                                | 0.23     |
| The average market price used in calculating assumed number of shares | \$ 18.40                           | \$ 18.83 | \$ 20.69                            | \$ 17.80 |

### Note 3 - Investment Securities

The amortized cost and estimated fair values of investment securities are summarized below. As of September 30, 2024 and December 31, 2023, there was no allowance for credit losses on available-for-sale securities.

#### AVAILABLE-FOR-SALE:

| (Dollars in thousands)              | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
|-------------------------------------|-------------------|------------------------------|-------------------------------|-------------------|
|                                     |                   |                              |                               |                   |
| <b>September 30, 2024</b>           |                   |                              |                               |                   |
| US Treasury securities              | \$ 15,815         | \$ —                         | \$ (2,061)                    | \$ 13,754         |
| Government Sponsored Enterprises    | 2,500             | —                            | (289)                         | 2,211             |
| Mortgage-backed securities          | 245,975           | 70                           | (13,264)                      | 232,781           |
| Small Business Administration pools | 13,199            | 27                           | (296)                         | 12,930            |
| Corporate and other securities      | 8,757             | —                            | (880)                         | 7,877             |
| <b>Total</b>                        | <b>\$ 286,246</b> | <b>\$ 97</b>                 | <b>\$ (16,790)</b>            | <b>\$ 269,553</b> |

| (Dollars in thousands)              | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
|-------------------------------------|-------------------|------------------------------|-------------------------------|-------------------|
|                                     |                   |                              |                               |                   |
| <b>December 31, 2023</b>            |                   |                              |                               |                   |
| US Treasury securities              | \$ 20,791         | \$ —                         | \$ (2,445)                    | \$ 18,346         |
| Government Sponsored Enterprises    | 2,500             | —                            | (371)                         | 2,129             |
| Mortgage-backed securities          | 255,757           | 15                           | (17,613)                      | 238,159           |
| Small Business Administration pools | 16,108            | 24                           | (411)                         | 15,721            |
| Corporate and other securities      | 8,759             | —                            | (888)                         | 7,871             |
| <b>Total</b>                        | <b>\$ 303,915</b> | <b>\$ 39</b>                 | <b>\$ (21,728)</b>            | <b>\$ 282,226</b> |

**HELD-TO-MATURITY:**

| (Dollars in thousands)                                     | Amortized Cost    | Gross Unrealized Gains |                   | Gross Unrealized Losses |  | Fair Value |
|--|-------------------|------------------------|-------------------|-------------------------|--|------------|
|  |                   |                        |                   |                         |  |            |
| <b>September 30, 2024</b>                                  |                   |                        |                   |                         |  |            |
| Mortgage-backed securities                                 | \$ 108,094        | \$ —                   | \$ (5,931)        | \$ 102,163              |  |            |
| State and local government                                 | 104,149           | 104                    | (1,771)           | 102,482                 |  |            |
| Allowance for credit losses on Held-to-Maturity Securities | (24)              | —                      | —                 | (24)                    |  |            |
| <b>Total</b>   | <b>\$ 212,219</b> | <b>\$ 104</b>          | <b>\$ (7,702)</b> | <b>\$ 204,621</b>       |  |            |

| (Dollars in thousands)                                     | Amortized Cost    | Gross Unrealized Gains |                 | Gross Unrealized Losses |  | Fair Value |
|--|-------------------|------------------------|-----------------|-------------------------|--|------------|
|  |                   |                        |                 |                         |  |            |
| <b>December 31, 2023</b>                                   |                   |                        |                 |                         |  |            |
| Mortgage-backed securities                                 | \$ 112,740        | —                      | \$ (8,490)      | \$ 104,250              |  |            |
| State and local government                                 | 104,460           | 283                    | (3,445)         | 101,298                 |  |            |
| Allowance for credit losses on Held-to-Maturity Securities | (30)              | —                      | —               | (30)                    |  |            |
| <b>Total</b>   | <b>\$ 217,170</b> | <b>283</b>             | <b>(11,935)</b> | <b>\$ 205,518</b>       |  |            |

There were no gross realized gains or gross realized losses from the sale of available-for-sale investment securities during the three and nine months ended September 30, 2024, and \$1.2 million gross realized losses from the sale of available-for-sale securities during the three and nine months ended September 30, 2023.

For available-for-sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, or more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At September 30, 2024 and December 31, 2023, there was no allowance for credit loss related to the available-for-sale securities portfolio.

The following tables show gross unrealized losses and fair values of available-for-sale securities for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous loss position, as of September 30, 2024.

| September 30, 2024                  | Less than 12 months |                 | 12 months or more |                  | Total             |                  |
|-------------------------------------|---------------------|-----------------|-------------------|------------------|-------------------|------------------|
|                                     | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss  | Fair Value        | Unrealized Loss  |
| Available-for-sale securities:      |                     |                 |                   |                  |                   |                  |
| (Dollars in thousands)              |                     |                 |                   |                  |                   |                  |
| US Treasury Securities              | \$ —                | \$ —            | \$ 13,754         | \$ 2,061         | \$ 13,754         | \$ 2,061         |
| Government Sponsored Enterprise     | —                   | —               | 2,211             | 289              | 2,211             | 289              |
| Mortgage-backed securities          | 318                 | —               | 222,197           | 13,264           | 222,515           | 13,264           |
| Small Business Administration pools | 700                 | —               | 9,104             | 296              | 9,804             | 296              |
| Corporate and other securities      | 1,495               | 263             | 6,377             | 617              | 7,872             | 880              |
| <b>Total</b>                        | <b>\$ 2,513</b>     | <b>\$ 263</b>   | <b>\$ 253,643</b> | <b>\$ 16,527</b> | <b>\$ 256,156</b> | <b>\$ 16,790</b> |

The following table shows gross unrealized losses by fair values of available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position as of December 31, 2023.

| December 31, 2023   | Less than 12 months |                 | 12 months or more |                 | Total      |                 |
|---|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|   | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| Available-for-sale securities:<br><i>(Dollars in thousands)</i> |                     |                 |                   |                 |            |                 |
| US Treasury Securities  | \$ —                | \$ —            | \$ 18,346         | \$ 2,445        | \$ 18,346  | \$ 2,445        |
| Government Sponsored Enterprise                                 | —                   | —               | 2,129             | 371             | 2,129      | 371             |
| Mortgage-backed securities                                      | 8,164               | 423             | 223,844           | 17,190          | 232,008    | 17,613          |
| Small Business Administration pools                             | 4,253               | 45              | 7,638             | 366             | 11,891     | 411             |
| Corporate and other securities                                  | 1,880               | 115             | 4,236             | 773             | 6,116      | 888             |
| Total   | \$ 14,297           | \$ 583          | \$ 256,193        | \$ 21,145       | \$ 270,490 | \$ 21,728       |

The following table shows a roll forward of the allowance for credit losses on held to maturity securities for the three and nine months ended September 30, 2024 and 2023.

| <i>(Dollars in thousands)</i>                               | Three Months Ended September 30, 2024 |                                    |
|---|---------------------------------------|------------------------------------|
|   | Beginning balance, June 30, 2024      | Provision for credit losses        |
| Allowance for Credit Losses on Held-to-Maturity Securities: |                                       |                                    |
| State and local government                                  |                                       |                                    |
| Beginning balance, June 30, 2024                            | \$ 27                                 |                                    |
| Provision for credit losses                                 | (3)                                   |                                    |
| Ending balance, September 30, 2024                          | \$ 24                                 |                                    |
| Three Months Ended September 30, 2023                       |                                       |                                    |
| <i>(Dollars in thousands)</i>                               | Three Months Ended September 30, 2023 |                                    |
|   | Beginning balance, June 30, 2023      | Provision for credit losses        |
| Allowance for Credit Losses on Held-to-Maturity Securities: |                                       |                                    |
| State and local government                                  |                                       |                                    |
| Beginning balance, June 30, 2023                            | \$ 37                                 |                                    |
| Provision for credit losses                                 | (5)                                   |                                    |
| Ending balance, September 30, 2023                          | \$ 32                                 |                                    |
| Nine Months Ended September 30, 2024                        |                                       |                                    |
| <i>(Dollars in thousands)</i>                               | Nine Months Ended September 30, 2024  |                                    |
|   | Beginning balance, December 31, 2023  | Provision for credit losses        |
| Allowance for Credit Losses on Held-to-Maturity Securities: |                                       |                                    |
| State and local government                                  |                                       |                                    |
| Beginning balance, December 31, 2023                        | \$ 30                                 |                                    |
| Provision for credit losses                                 | (6)                                   |                                    |
| Ending balance, September 30, 2024                          | \$ 24                                 |                                    |
| Nine Months Ended September 30, 2023                        |                                       |                                    |
| <i>(Dollars in thousands)</i>                               | Nine Months Ended September 30, 2023  |                                    |
|   | Beginning balance, December 31, 2022  | Adjustment for adoption of ASC 326 |
| Allowance for Credit Losses on Held-to-Maturity Securities: |                                       |                                    |
| State and local government                                  |                                       |                                    |
| Beginning balance, December 31, 2022                        | \$ —                                  | 43                                 |
| Provision for credit losses                                 |                                       | (11)                               |
| Ending balance, September 30, 2023                          | \$ 32                                 |                                    |

At September 30, 2024, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as non-accrual at September 30, 2024.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The held-to-maturity portfolio consists of mortgage-backed and municipal securities. Securities are generally rated BBB- or higher. Securities are analyzed individually to establish a CECL reserve.

The estimate of expected credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. Management classifies the held-to-maturity portfolio into the following major security types: mortgage-backed securities or state and local governments.

All the mortgage-backed securities ("MBS") held by the Company are issued by government-sponsored corporations. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. As a result, no allowance for credit losses was recorded on held-to-maturity MBS as of September 30, 2024 and December 31, 2023. The state and local governments securities held by the Company are highly rated by major rating agencies.

The Company monitors the credit quality of the debt securities held to maturity through the use of credit ratings (Moody's) on a quarterly basis. In the event that Moody's does not provide a rating, the comparable S&P rating is used and converted to a Moody's rating. The following table summarizes the amortized cost of debt securities held to maturity at September 30, 2024 and December 31, 2023, aggregated by credit quality indicators.

| <i>(Dollars in thousands)</i>                                     | As of<br>September 30, 2024 | As of<br>December 31, 2023 |
|---|-----------------------------|----------------------------|
| <b>Rating:</b>  |                             |                            |
| Aaa   | \$ 153,394                  | \$ 156,749                 |
| Aa1/Aa2/Aa3   | 53,792                      | 55,388                     |
| A1/A2   | 5,057                       | 5,063                      |
| <b>Allowance for Credit Losses on Held-to-Maturity Securities</b> | <b>(24)</b>                 | <b>(30)</b>                |
| <b>Total</b>  | <b>\$ 212,219</b>           | <b>\$ 217,170</b>          |

The following table shows the amortized cost and fair value of investment securities at September 30, 2024, by expected maturity. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without prepayment penalties. Mortgage-backed securities are included in the year corresponding with the remaining expected life.

| <i>September 30, 2024</i><br><i>(Dollars in thousands)</i> | <b>Available-for-sale</b> |                       |
|--|---------------------------|-----------------------|
|  | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
| Due in one year or less                                    | \$ 244                    | \$ 240                |
| Due after one year through five years                      | 12,505                    | 12,315                |
| Due after five years through ten years                     | 33,492                    | 30,028                |
| Due after ten years  | 240,005                   | 226,970               |
| <b>Total</b>   | <b>\$ 286,246</b>         | <b>\$ 269,553</b>     |

| <i>September 30, 2024</i><br><i>(Dollars in thousands)</i>        | <b>Held-To-Maturity</b>   |                       |
|---|---------------------------|-----------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
| Due in one year or less   | \$ 4,665                  | \$ 4,631              |
| Due after one year through five years                             | 56,606                    | 55,635                |
| Due after five years through ten years                            | 60,346                    | 59,285                |
| Due after ten years   | 90,626                    | 85,094                |
| <b>Allowance for Credit Losses on Held-to-Maturity Securities</b> | <b>(24)</b>               | <b>(24)</b>           |
| <b>Total</b>  | <b>\$ 212,219</b>         | <b>\$ 204,621</b>     |

#### Note 4 - Loans

The following table summarizes the composition of our loan portfolio. Total loans are recorded net of deferred loan fees and costs, which totaled \$ 2.0 million and \$2.2 million as of September 30, 2024 and December 31, 2023, respectively.

| (Dollars in thousands)                           | September 30,<br>2024 | December 31,<br>2023 |
|--|-----------------------|----------------------|
| Commercial                                       | \$ 84,445             | \$ 78,134            |
| Real estate:                                     |                       |                      |
| Construction                                     | 149,395               | 118,225              |
| Mortgage-residential                             | 121,021               | 94,796               |
| Mortgage-commercial                              | 786,029               | 791,947              |
| Consumer:  |                       |                      |
| Home equity                                      | 38,697                | 34,752               |
| Other  | 17,072                | 16,165               |
| Total loans, net of deferred loan fees and costs | \$ 1,196,659          | \$ 1,134,019         |

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a monthly basis. Loans not meeting the criteria below that are analyzed individually as part of the analysis are considered as pass rated loans. The Company uses the following definitions for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

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

**Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of September 30, 2024:

| (\$ in thousands)                       | Term Loans by year of Origination |           |          |          |           |          |           |        | Revolving<br>Converted<br>to Term | Total |
|---|-----------------------------------|-----------|----------|----------|-----------|----------|-----------|--------|-----------------------------------|-------|
|   | 2020                              | 2021      | 2022     | 2023     | 2024      | Prior    | Revolving |        |                                   |       |
| <b>Commercial</b>                       |                                   |           |          |          |           |          |           |        |                                   |       |
| Pass                                    | \$ 679                            | \$ 20,609 | \$ 7,649 | \$ 8,928 | \$ 15,591 | \$ 8,355 | \$ 22,586 | \$ 38  | \$ 84,435                         |       |
| Special mention                         | —                                 | —         | —        | —        | —         | —        | 10        | —      | 10                                |       |
| Total commercial                        | 679                               | 20,609    | 7,649    | 8,928    | 15,591    | 8,355    | 22,596    | 38     | 84,445                            |       |
| Current period gross write-offs         | —                                 | 77        | —        | —        | —         | 5        | —         | —      | 83                                |       |
| <b>Real estate construction</b>         |                                   |           |          |          |           |          |           |        |                                   |       |
| Pass                                    | —                                 | 4,415     | 41,830   | 54,141   | 15,879    | 6,249    | 26,881    | —      | 149,395                           |       |
| Total real estate construction          | —                                 | 4,415     | 41,830   | 54,141   | 15,879    | 6,249    | 26,881    | —      | 149,395                           |       |
| Current period gross write-offs         | —                                 | —         | —        | —        | —         | —        | —         | —      | —                                 |       |
| <b>Real estate mortgage-residential</b> |                                   |           |          |          |           |          |           |        |                                   |       |
| Pass                                    | 9,129                             | 5,566     | 32,835   | 29,775   | 12,569    | 8,466    | 880       | 21,201 | 120,421                           |       |
| Special mention                         | 219                               | —         | —        | —        | —         | 170      | —         | —      | 389                               |       |
| Substandard                             | —                                 | —         | —        | —        | —         | 211      | —         | —      | 211                               |       |
| Total real estate mortgage-residential  | 9,348                             | 5,566     | 32,835   | 29,775   | 12,569    | 8,466    | 880       | 21,201 | 121,021                           |       |
| Current period gross write-offs         | —                                 | —         | —        | —        | —         | —        | —         | —      | —                                 |       |
| <b>Real estate mortgage-commercial</b>  |                                   |           |          |          |           |          |           |        |                                   |       |
| Pass                                    | 82,379                            | 123,895   | 192,465  | 110,281  | 58,864    | 205,140  | 12,084    | 581    | 785,689                           |       |
| Special mention                         | —                                 | —         | —        | —        | —         | 151      | —         | —      | 151                               |       |
| Substandard                             | —                                 | 117       | —        | —        | —         | 72       | —         | —      | 189                               |       |
| Total real estate mortgage-commercial   | 82,379                            | 124,012   | 192,465  | 110,281  | 58,864    | 205,363  | 12,084    | 581    | 786,029                           |       |
| Current period gross write-offs         | —                                 | 2         | —        | —        | —         | —        | —         | —      | 2                                 |       |
| <b>Consumer - home equity</b>           |                                   |           |          |          |           |          |           |        |                                   |       |
| Pass                                    | —                                 | —         | —        | —        | —         | —        | 37,532    | —      | 37,532                            |       |
| Special mention                         | —                                 | —         | —        | —        | —         | —        | 105       | —      | 105                               |       |
| Substandard                             | —                                 | —         | —        | —        | —         | —        | 1,060     | —      | 1,060                             |       |
| Total consumer - home equity            | —                                 | —         | —        | —        | —         | —        | 38,697    | —      | 38,697                            |       |
| Current period gross write-offs         | —                                 | —         | —        | —        | —         | —        | —         | —      | —                                 |       |
| <b>Consumer - other</b>                 |                                   |           |          |          |           |          |           |        |                                   |       |
| Pass                                    | 120                               | 283       | 752      | 1,279    | 2,438     | 1,236    | 10,946    | —      | 17,054                            |       |
| Special mention                         | —                                 | —         | —        | 15       | 3         | —        | —         | —      | 18                                |       |
| Total consumer - other                  | 120                               | 283       | 752      | 1,294    | 2,441     | 1,236    | 10,946    | —      | 17,072                            |       |
| Current period gross write-offs         | —                                 | —         | —        | —        | —         | —        | 64        | —      | 64                                |       |

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

| (\$ in thousands)                             | Term Loans by year of Origination |               |                |                |                |                |               |              | Revolving<br>Converted<br>to Term | Total |
|---|-----------------------------------|---------------|----------------|----------------|----------------|----------------|---------------|--------------|-----------------------------------|-------|
|   | 2019                              | 2020          | 2021           | 2022           | 2023           | Prior          | Revolving     |              |                                   |       |
| <b>Commercial</b>                             |                                   |               |                |                |                |                |               |              |                                   |       |
| Pass  | \$ 1,149                          | \$ 1,375      | \$ 23,226      | \$ 9,018       | \$ 12,950      | \$ 9,230       | \$ 21,033     | \$ 49        | \$ 78,030                         |       |
| Special mention                               | —                                 | —             | —              | —              | —              | 26             | —             | —            | 26                                |       |
| Substandard                                   | —                                 | —             | 78             | —              | —              | —              | —             | —            | 78                                |       |
| <b>Total commercial</b>                       | <b>1,149</b>                      | <b>1,375</b>  | <b>23,304</b>  | <b>9,018</b>   | <b>12,950</b>  | <b>9,256</b>   | <b>21,033</b> | <b>49</b>    | <b>78,134</b>                     |       |
| Current period gross write-offs               | —                                 | 20            | —              | —              | —              | —              | —             | —            | 20                                |       |
| <b>Real estate construction</b>               |                                   |               |                |                |                |                |               |              |                                   |       |
| Pass  | 6,864                             | —             | 5,074          | 39,514         | 47,992         | —              | 18,781        | —            | 118,225                           |       |
| <b>Total real estate construction</b>         | <b>6,864</b>                      | <b>—</b>      | <b>5,074</b>   | <b>39,514</b>  | <b>47,992</b>  | <b>—</b>       | <b>18,781</b> | <b>—</b>     | <b>118,225</b>                    |       |
| Current period gross write-offs               | —                                 | —             | —              | —              | —              | —              | —             | —            | —                                 |       |
| <b>Real estate mortgage-residential</b>       |                                   |               |                |                |                |                |               |              |                                   |       |
| Pass  | 1,894                             | 10,548        | 6,219          | 28,843         | 28,517         | 8,420          | 977           | 8,962        | 94,380                            |       |
| Special mention                               | —                                 | 25            | —              | —              | —              | 177            | —             | —            | 202                               |       |
| Substandard                                   | —                                 | —             | —              | —              | —              | 214            | —             | —            | 214                               |       |
| <b>Total real estate mortgage-residential</b> | <b>1,894</b>                      | <b>10,573</b> | <b>6,219</b>   | <b>28,843</b>  | <b>28,517</b>  | <b>8,811</b>   | <b>977</b>    | <b>8,962</b> | <b>94,796</b>                     |       |
| Current period gross write-offs               | —                                 | —             | —              | —              | —              | —              | —             | —            | —                                 |       |
| <b>Real estate mortgage-commercial</b>        |                                   |               |                |                |                |                |               |              |                                   |       |
| Pass  | 47,962                            | 95,120        | 136,892        | 201,380        | 106,125        | 189,983        | 14,038        | 329          | 791,829                           |       |
| Special mention                               | —                                 | —             | —              | —              | —              | 21             | —             | —            | 21                                |       |
| Substandard                                   | —                                 | —             | —              | —              | —              | 97             | —             | —            | 97                                |       |
| <b>Total real estate mortgage-commercial</b>  | <b>47,962</b>                     | <b>95,120</b> | <b>136,892</b> | <b>201,380</b> | <b>106,125</b> | <b>190,101</b> | <b>14,038</b> | <b>329</b>   | <b>791,947</b>                    |       |
| Current period gross write-offs               | —                                 | —             | —              | —              | —              | —              | —             | —            | —                                 |       |
| <b>Consumer - home equity</b>                 |                                   |               |                |                |                |                |               |              |                                   |       |
| Pass  | —                                 | —             | —              | —              | —              | —              | 33,621        | —            | 33,621                            |       |
| Special mention                               | —                                 | —             | —              | —              | —              | —              | 67            | —            | 67                                |       |
| Substandard                                   | —                                 | —             | —              | —              | —              | —              | 1,064         | —            | 1,064                             |       |
| <b>Total consumer - home equity</b>           | <b>—</b>                          | <b>—</b>      | <b>—</b>       | <b>—</b>       | <b>—</b>       | <b>—</b>       | <b>34,752</b> | <b>—</b>     | <b>34,752</b>                     |       |
| Current period gross write-offs               | —                                 | —             | —              | —              | —              | —              | —             | —            | —                                 |       |
| <b>Consumer - other</b>                       |                                   |               |                |                |                |                |               |              |                                   |       |
| Pass  | 420                               | 203           | 435            | 1,164          | 2,043          | 902            | 10,982        | —            | 16,149                            |       |
| Special mention                               | —                                 | —             | —              | —              | 16             | —              | —             | —            | 16                                |       |
| Substandard                                   | —                                 | —             | —              | —              | —              | —              | —             | —            | —                                 |       |
| <b>Total consumer - other</b>                 | <b>420</b>                        | <b>203</b>    | <b>435</b>     | <b>1,164</b>   | <b>2,059</b>   | <b>902</b>     | <b>10,982</b> | <b>—</b>     | <b>16,165</b>                     |       |
| Current period gross write-offs               | —                                 | —             | —              | —              | —              | —              | 67            | —            | 67                                |       |



The detailed activity in the allowance for credit losses and the recorded investment in loans receivable for the three and nine months ended September 30, 2024 is shown below:

| (\$ in thousands)             | Commercial      | Real Estate Construction | Real Estate Mortgage Residential | Real Estate Mortgage Commercial | Consumer Home Equity | Consumer Other | Total Loans      |
|-------------------------------|-----------------|--------------------------|----------------------------------|---------------------------------|----------------------|----------------|------------------|
| Balance at June 30, 2024      | \$ 1,026        | \$ 1,619                 | \$ 1,378                         | \$ 8,146                        | \$ 504               | \$ 259         | \$ 12,932        |
| Charge-offs                   | (53)            | —                        | —                                | —                               | —                    | (29)           | (82)             |
| Recoveries                    | 3               | 1                        | —                                | 2                               | 2                    | 6              | 14               |
| Provision for credit losses   | 35              | 63                       | 148                              | (274)                           | 50                   | (47)           | 69               |
| Balance at September 30, 2024 | <u>\$ 1,011</u> | <u>\$ 1,683</u>          | <u>\$ 1,526</u>                  | <u>\$ 7,874</u>                 | <u>\$ 556</u>        | <u>\$ 283</u>  | <u>\$ 12,933</u> |

| (\$ in thousands)             | Commercial      | Real Estate Construction | Real Estate Mortgage Residential | Real Estate Mortgage Commercial | Consumer Home Equity | Consumer Other | Total Loans      |
|-------------------------------|-----------------|--------------------------|----------------------------------|---------------------------------|----------------------|----------------|------------------|
| Balance at December 31, 2023  | \$ 935          | \$ 1,337                 | \$ 1,122                         | \$ 8,146                        | \$ 472               | \$ 255         | \$ 12,267        |
| Charge-offs                   | (83)            | —                        | —                                | (2)                             | —                    | (64)           | (149)            |
| Recoveries                    | 5               | 2                        | 18                               | 9                               | 7                    | 12             | 53               |
| Provision for credit losses   | 154             | 344                      | 386                              | (280)                           | 77                   | 80             | 761              |
| Balance at September 30, 2024 | <u>\$ 1,011</u> | <u>\$ 1,683</u>          | <u>\$ 1,526</u>                  | <u>\$ 7,874</u>                 | <u>\$ 556</u>        | <u>\$ 283</u>  | <u>\$ 12,933</u> |

The detailed activity in the allowance for credit losses and the recorded investment in loans receivable for the three and nine months ended September 30, 2023 is shown below:

| (\$ in thousands)                 | Commercial    | Real estate Construction | Real estate Mortgage Residential | Real estate Mortgage Commercial | Consumer Home equity | Consumer Other | Total            |
|-----------------------------------|---------------|--------------------------|----------------------------------|---------------------------------|----------------------|----------------|------------------|
| Balance at June 30, 2023          | \$ 1,012      | \$ 1,127                 | \$ 861                           | \$ 7,886                        | \$ 438               | \$ 230         | \$ 11,554        |
| Charge-offs                       | (20)          | —                        | —                                | —                               | —                    | (14)           | (34)             |
| Recoveries                        | 1             | 1                        | 1                                | 15                              | 13                   | 7              | 38               |
| Provisions                        | (6)           | 222                      | 122                              | (82)                            | (12)                 | 16             | 260              |
| Ending balance September 30, 2023 | <u>\$ 987</u> | <u>\$ 1,350</u>          | <u>\$ 984</u>                    | <u>\$ 7,819</u>                 | <u>\$ 439</u>        | <u>\$ 239</u>  | <u>\$ 11,818</u> |

| (\$ in thousands)                                   | Commercial    | Real estate Construction | Real estate Mortgage Residential | Real estate Mortgage Commercial | Consumer Home equity | Consumer Other | Unallocated | Total            |
|---|---------------|--------------------------|----------------------------------|---------------------------------|----------------------|----------------|-------------|------------------|
| Balance at December 31, 2022                        | \$ 849        | \$ 75                    | \$ 723                           | \$ 8,569                        | \$ 314               | \$ 170         | \$ 636      | \$ 11,336        |
| Adjustment to allowance for adoption of ASU 2016-13 | 193           | 1,075                    | 32                               | (883)                           | 166                  | 39             | (636)       | (14)             |
| Charge-offs   | (20)          | —                        | —                                | —                               | —                    | (50)           | —           | (70)             |
| Recoveries  | 4             | 2                        | 4                                | 33                              | 19                   | 13             | —           | 75               |
| Provisions  | (39)          | 198                      | 225                              | 100                             | (60)                 | 67             | —           | 491              |
| Ending balance September 30, 2023                   | <u>\$ 987</u> | <u>\$ 1,350</u>          | <u>\$ 984</u>                    | <u>\$ 7,819</u>                 | <u>\$ 439</u>        | <u>\$ 239</u>  | <u>—</u>    | <u>\$ 11,818</u> |

There were no loans modified for borrowers experiencing financial difficulty during the nine months ended September 30, 2024 or the nine months ended September 30, 2023.

The following table shows the amortized cost basis as of September 30, 2024 of the loans modified for borrowers experiencing financial difficulty segregated by loan category and describes the financial effect of the modification made for a borrower experiencing financial difficulty.

| (Dollars in thousands)           | Amortized cost basis | % of Total Loan Type | September 30, 2024   |
|----------------------------------|----------------------|----------------------|--|
|                                  |                      |                      | Financial effect   |
| Real Estate Mortgage Residential | 197                  | 0.16%                | Deferred two monthly payments that are added to the end of the original loan term. |
| Total Loans                      | <u>\$ 197</u>        | <u>\$ 0.16%</u>      | <u>—</u>   |

The following tables are by loan category and present loans past due and on non-accrual status as of September 30, 2024 and December 31, 2023.

| (Dollars in thousands)<br>September 30, 2024 | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Greater than<br>90 Days and<br>Accruing | Non-accrual   | Total<br>Past Due | Current            | Total Loans         |
|--|------------------------|------------------------|---|---------------|-------------------|--------------------|---------------------|
|  | \$ 55                  | \$ 6                   | \$ —                                    | \$ —          | \$ 61             | \$ 84,384          | \$ 84,445           |
| Commercial                                   |                        |                        |   |               |                   |                    |                     |
| Real estate:                                 |                        |                        |   |               |                   |                    |                     |
| Construction                                 | —                      | —                      | —                                       | —             | —                 | 149,395            | 149,395             |
| Mortgage-residential                         | 129                    | 422                    | 211                                     | —             | 762               | 120,259            | 121,021             |
| Mortgage-commercial                          | 148                    | 74                     | —                                       | 117           | 339               | 785,690            | 786,029             |
| Consumer:                                    |                        |                        |   |               |                   |                    |                     |
| Home equity                                  | 229                    | —                      | —                                       | 2             | 231               | 38,466             | 38,697              |
| Other  | 10                     | 7                      | —                                       | —             | 17                | 17,055             | 17,072              |
|  | <u>\$ 571</u>          | <u>\$ 509</u>          | <u>\$ 211</u>                           | <u>\$ 119</u> | <u>\$ 1,410</u>   | <u>\$1,195,249</u> | <u>\$ 1,196,659</u> |

  

| (Dollars in thousands)<br>December 31, 2023 | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Greater than<br>90 Days and<br>Accruing | Non-accrual  | Total<br>Past Due | Current            | Total Loans         |
|---|------------------------|------------------------|---|--------------|-------------------|--------------------|---------------------|
|   | \$ 19                  | \$ 7                   | \$ —                                    | \$ 24        | \$ 50             | \$ 78,084          | \$ 78,134           |
| Commercial                                  |                        |                        |   |              |                   |                    |                     |
| Real estate:                                |                        |                        |   |              |                   |                    |                     |
| Construction                                | —                      | —                      | —                                       | —            | —                 | 118,225            | 118,225             |
| Mortgage-residential                        | 244                    | 15                     | 214                                     | —            | 473               | 94,323             | 94,796              |
| Mortgage-commercial                         | 67                     | 124                    | —                                       | —            | 191               | 791,756            | 791,947             |
| Consumer:                                   |                        |                        |   |              |                   |                    |                     |
| Home equity                                 | —                      | —                      | —                                       | 3            | 3                 | 34,749             | 34,752              |
| Other                                       | 22                     | —                      | 1                                       | —            | 23                | 16,142             | 16,165              |
|   | <u>\$ 352</u>          | <u>\$ 146</u>          | <u>\$ 215</u>                           | <u>\$ 27</u> | <u>\$ 740</u>     | <u>\$1,133,279</u> | <u>\$ 1,134,019</u> |

The following table is a summary of the Company's non-accrual loans by major categories for the periods indicated.

| (Dollars in thousands) | CECL                                      |   |                               |
|------------------------|---|---|-------------------------------|
|                        | September 30, 2024                        |   |                               |
|                        | Non-accrual<br>Loans with<br>No Allowance | Non-accrual<br>Loans with an<br>Allowance | Total<br>Non-accrual<br>Loans |
| Commercial             | \$ —                                      | \$ —                                      | \$ —                          |
| Real estate:           |   |   |                               |
| Construction           | —   | —   | —                             |
| Mortgage-residential   | —   | —   | —                             |
| Mortgage-commercial    | —   | 117                                       | 117                           |
| Consumer:              |   |   |                               |
| Home equity            | —   | 2   | 2                             |
| Other                  | —   | —   | —                             |
| Total                  | <u>\$ —</u>                               | <u>\$ 119</u>                             | <u>\$ 119</u>                 |

| (Dollars in thousands) | CECL                                      |   |                               |
|------------------------|---|---|-------------------------------|
|                        | December 31, 2023                         |   |                               |
|                        | Non-accrual<br>Loans with<br>No Allowance | Non-accrual<br>Loans with an<br>Allowance | Total<br>Non-accrual<br>Loans |
| Commercial             | \$ —                                      | \$ 24                                     | \$ 24                         |
| Real estate:           |   |   |                               |
| Construction           | —   | —   | —                             |
| Mortgage-residential   | —   | —   | —                             |
| Mortgage-commercial    | —   | —   | —                             |
| Consumer:              |   |   |                               |
| Home equity            | —   | 3   | 3                             |
| Other                  | —   | —   | —                             |
| Total                  | <u>\$ —</u>                               | <u>\$ 27</u>                              | <u>\$ 27</u>                  |

The Company recognized \$6,800 and \$29,200 of interest income on non-accrual loans during the three and nine months ended September 30, 2024, and the company recognized \$5,100 and \$93,700 of interest income on non-accrual loans during the three and nine months ended September 30, 2023, respectively.

For the three and nine months ended September 30, 2024 and September 30, 2023 \$1,600 and less than \$1,000 of accrued interest was written off by reversing interest income.

There were no collateral dependent loans that were individually evaluated at September 30, 2024 and December 31, 2023.

#### **Unfunded Commitments**

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., commitment cannot be cancelled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss 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 allowance for credit losses on loans. The allowance for credit losses for unfunded loan commitments is separately classified on the balance sheet within Other Liabilities and was \$409,000 and \$597,000 at September 30, 2024 and December 31, 2023, respectively.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the three and nine months ended September 30, 2024 and September 30, 2023.

| (Dollars in thousands)             | Total Allowance for Credit<br>Losses - Unfunded<br>Commitments |
|------------------------------------|--|
| Balance, June 30, 2024             | \$ 490   |
| Provision for unfunded commitments | (81)   |
| Balance, September 30, 2024        | <u>\$ 409</u>  |

| (Dollars in thousands)             | Total Allowance for Credit<br>Losses - Unfunded<br>Commitments |
|------------------------------------|--|
| Balance, December 31, 2023         | \$ 597   |
| Provision for unfunded commitments | (188)  |
| Balance, September 30, 2024        | <u>\$ 409</u>  |

| (Dollars in thousands)             | <b>Total Allowance for Credit Losses - Unfunded Commitments</b> |
|------------------------------------|---|
| Balance, June 30, 2023             | \$ 429  |
| Provision for unfunded commitments | 214   |
| <b>Balance, September 30, 2023</b> | <b>\$ 643</b>   |

| (Dollars in thousands)             | <b>Total Allowance for Credit Losses - Unfunded Commitments</b> |
|------------------------------------|---|
| Balance, December 31, 2022         | \$ —  |
| Adjustment for ASU                 | 398   |
| Provision for unfunded commitments | 245   |
| <b>Balance, September 30, 2023</b> | <b>\$ 643</b>   |

**Note 5 - Fair Value Measurement**

US GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities.

**Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair value estimates, methods, and assumptions are set forth below.

*Cash and short term investments*-The carrying amount of these financial instruments (cash and due from banks, interest-bearing bank balances, federal funds sold and securities purchased under agreements to resell) approximates fair value. All mature within 90 days and do not present unanticipated credit concerns and are classified as Level 1.

*Investment Securities*-Measurement is on a recurring basis based upon quoted market prices, if available. If quoted market prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for prepayment assumptions, projected credit losses, and liquidity. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, or by dealers or brokers in active over-the-counter markets. Level 2 securities include mortgage-backed securities issued both by government sponsored enterprises and private label mortgage-backed securities. Generally, these fair values are priced from established pricing models. Level 3 securities include corporate debt obligations and asset-backed securities that are less liquid or for which there is an inactive market.

*Other investments, at cost*-The carrying value of other investments, such as FHLB stock, approximates fair value based on redemption provisions.

*Loans Held for Sale*-The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor, are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors at a locked in price with the investors on the same day that the loan was locked in with the Company's customers. Therefore, these loans present very little market risk for the Company and are classified as Level 2. The carrying amount of these loans approximates fair value.

**Loans**-The valuation of loans receivable is estimated using the exit price notion which incorporates factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, individually evaluated loans and all other loans. The results are then adjusted to account for credit risk as described above.

**Other Real Estate Owned ("OREO")**-OREO is carried at the lower of carrying value or fair value on a non-recurring basis. Fair value is based upon independent appraisals or management's estimation of the collateral and is considered a Level 3 measurement.

**Derivative Financial Instruments**-Fair value is estimated using discounted cash flow models where future floating cash flows are projected and discounted back. Derivative financial instruments are classified as Level 2.

**Accrued Interest Receivable**-The fair value approximates the carrying value and is classified as Level 1.

**Deposits**-The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposits is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities. Deposits are classified as Level 2.

**Federal Home Loan Bank Advances**-Fair value is estimated based on discounted cash flows using current market rates for borrowings with similar terms and are classified as Level 2.

**Short Term Borrowings**-The carrying value of short term borrowings (securities sold under agreements to repurchase and demand notes to the Treasury) approximates fair value. These are classified as Level 2.

**Junior Subordinated Debentures**-The fair values of junior subordinated debentures are estimated by using discounted cash flow analyses based on incremental borrowing rates for similar types of instruments. These are classified as Level 2.

**Accrued Interest Payable**-The fair value approximates the carrying value and is classified as Level 1.

**Commitments to Extend Credit**-The fair value of these commitments is immaterial because their underlying interest rates approximate market.

The carrying amount and estimated fair value by classification level of the Company's financial instruments as of September 30, 2024 and December 31, 2023 are as follows:

| (Dollars in thousands)                                     | September 30, 2024 |                  |            |                  |                  |
|--|--------------------|------------------|------------|------------------|------------------|
|  | Carrying<br>Amount | Fair Value       |            |                  |                  |
|  |                    | Total            | Level 1    | Level 2          | Level 3          |
| <b>Financial assets:</b>                                   |                    |                  |            |                  |                  |
| Cash and short term investments                            | \$ 171,499         | \$ 171,499       | \$ 171,499 | \$ —             | \$ —             |
| Available-for-sale securities                              | 269,553            | 269,553          | —          | 269,553          | —                |
| Held-to-maturity securities                                | 212,219            | 204,622          | —          | 204,622          | —                |
| Other investments, at cost                                 | 5,054              | 5,054            | —          | —                | 5,054            |
| Loans held for sale  | 3,935              | 3,935            | —          | 3,935            | —                |
| <b>Net loans receivable</b>                                | <b>1,183,257</b>   | <b>1,133,928</b> | —          | —                | <b>1,133,928</b> |
| Accrued interest receivable                                | 5,994              | 5,994            | 5,994      | —                | —                |
| <b>Financial liabilities:</b>                              |                    |                  |            |                  |                  |
| Non-interest bearing demand                                | \$ 441,386         | \$ 441,386       | \$ —       | \$ 441,386       | \$ —             |
| Interest bearing demand deposits and money market accounts | 771,319            | 771,319          | —          | 771,319          | —                |
| Savings  | 108,640            | 108,640          | —          | 108,640          | —                |
| Time deposits  | 313,706            | 317,725          | —          | 317,725          | —                |
| <b>Total deposits</b>                                      | <b>1,635,051</b>   | <b>1,639,070</b> | —          | <b>1,639,070</b> | —                |
| Federal Home Loan Bank Advances                            | 50,000             | 50,000           | —          | 50,000           | —                |
| Short term borrowings                                      | 70,589             | 70,589           | —          | 70,589           | —                |
| Derivative financial instruments                           | 82                 | 82               | —          | 82               | —                |
| Junior subordinated debentures                             | 14,964             | 12,906           | —          | 12,906           | —                |
| Accrued interest payable                                   | 5,635              | 5,635            | 5,635      | —                | —                |

| (Dollars in thousands)                                     | Carrying Amount | December 31, 2023 |           |            |           |
|--|-----------------|-------------------|-----------|------------|-----------|
|  |                 | Fair Value        |           | Level 1    | Level 2   |
|  |                 | Total             | Level 3   |            |           |
| <b>Financial Assets:</b>                                   |                 |                   |           |            |           |
| Cash and short term investments                            | \$ 94,695       | \$ 94,695         | \$ 94,695 | \$ —       | \$ —      |
| Available-for-sale securities                              | 282,226         | 282,226           | —         | 282,226    | —         |
| Held-to-maturity securities                                | 217,170         | 205,518           | —         | 205,518    | —         |
| Other investments, at cost                                 | 6,800           | 6,800             | —         | —          | 6,800     |
| Loans held for sale  | 4,433           | 4,433             | —         | 4,433      | —         |
| Derivative financial instruments                           | 1,069           | 1,069             | —         | 1,069      | —         |
| Net loans receivable                                       | 1,121,752       | 1,088,053         | —         | —          | 1,088,053 |
| Accrued interest receivable                                | 5,869           | 5,869             | 5,869     | —          | —         |
| <b>Financial liabilities:</b>                              |                 |                   |           |            |           |
| Non-interest bearing demand                                | \$ 432,333      | \$ 432,333        | \$ —      | \$ 432,333 | \$ —      |
| Interest bearing demand deposits and money market accounts | 707,434         | 707,434           | —         | 707,434    | —         |
| Savings  | 118,623         | 118,623           | —         | 118,623    | —         |
| Time deposits  | 252,611         | 252,137           | —         | 252,137    | —         |
| Total deposits   | 1,511,001       | 1,510,527         | —         | 1,510,527  | —         |
| Federal Home Loan Bank Advances                            | 90,000          | 90,000            | —         | 90,000     | —         |
| Short term borrowings                                      | 62,863          | 62,863            | —         | 62,863     | —         |
| Junior subordinated debentures                             | 14,964          | 13,123            | —         | 13,123     | —         |
| Accrued interest payable                                   | 3,575           | 3,575             | 3,575     | —          | —         |

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of September 30, 2024 and December 31, 2023 that are measured on a recurring basis.

| (Dollars in thousands)                | September 30, 2024 |             |                   |             |
|---------------------------------------|--------------------|-------------|-------------------|-------------|
|                                       | Total              | Level 1     | Level 2           | Level 3     |
| <b>Available- for-sale securities</b> |                    |             |                   |             |
| US Treasury Securities                | \$ 13,754          | \$ —        | \$ 13,754         | \$ —        |
| Government Sponsored Enterprises      | 2,211              | —           | 2,211             | —           |
| Mortgage-backed securities            | 232,781            | —           | 232,781           | —           |
| Small Business Administration pools   | 12,930             | —           | 12,930            | —           |
| Corporate and other securities        | 7,877              | —           | 7,877             | —           |
| Total Available-for-sale securities   | 269,553            | —           | 269,553           | —           |
| Loans held for sale                   | 4,433              | —           | 4,433             | —           |
| <b>Total</b>                          | <b>\$ 273,986</b>  | <b>\$ —</b> | <b>\$ 273,986</b> | <b>\$ —</b> |

| (Dollars in thousands)                | December 31, 2023 |             |                   |             |
|---------------------------------------|-------------------|-------------|-------------------|-------------|
|                                       | Total             | Level 1     | Level 2           | Level 3     |
| <b>Available- for-sale securities</b> |                   |             |                   |             |
| US Treasury Securities                | \$ 18,346         | \$ —        | \$ 18,346         | \$ —        |
| Government Sponsored Enterprises      | 2,129             | —           | 2,129             | —           |
| Mortgage-backed securities            | 238,159           | —           | 238,159           | —           |
| Small Business Administration pools   | 15,721            | —           | 15,721            | —           |
| Corporate and other securities        | 7,871             | —           | 7,871             | —           |
| Total Available-for-sale securities   | 282,226           | —           | 282,226           | —           |
| Derivative financial instruments      | 1,069             | —           | 1,069             | —           |
| Loans held for sale                   | 4,433             | —           | 4,433             | —           |
| <b>Total</b>                          | <b>\$ 287,728</b> | <b>\$ —</b> | <b>\$ 287,728</b> | <b>\$ —</b> |

The following tables summarize quantitative disclosures about the fair value for each category of liabilities carried at fair value as of September 30, 2024 that are measured on a recurring basis. There were no liabilities carried at fair value as of December 31, 2023 that are measured on a recurring basis.

(Dollars in thousands)

| Description                      | September 30, 2024 |         |         |         |
|----------------------------------|--------------------|---------|---------|---------|
|                                  | Total              | Level 1 | Level 2 | Level 3 |
| Derivative financial instruments | 82                 | —       | 82      | —       |
| Total                            | \$ 82              | \$ —    | \$ 82   | \$ —    |

The following tables summarize quantitative disclosures about the fair value for each category of assets carried at fair value as of September 30, 2024 and December 31, 2023 that are measured on a non-recurring basis. There were no Level 3 financial instruments as of September 30, 2024 and December 31, 2023 measured on a recurring basis.

(Dollars in thousands)

| Description                   | September 30, 2024 |         |         |         |
|-------------------------------|--------------------|---------|---------|---------|
|                               | Total              | Level 1 | Level 2 | Level 3 |
| Other real estate owned:      |                    |         |         |         |
| Construction                  | \$ 145             | \$ —    | \$ —    | \$ 145  |
| Mortgage-commercial           | 399                | —       | —       | 399     |
| Total other real estate owned | 544                | —       | —       | 544     |
| Total                         | \$ 544             | \$ —    | \$ —    | \$ 544  |

(Dollars in thousands)

| Description                   | December 31, 2023 |         |         |         |
|-------------------------------|-------------------|---------|---------|---------|
|                               | Total             | Level 1 | Level 2 | Level 3 |
| Other real estate owned:      |                   |         |         |         |
| Construction                  | \$ 145            | \$ —    | \$ —    | \$ 145  |
| Mortgage-commercial           | 477               | —       | —       | 477     |
| Total other real estate owned | 622               | —       | —       | 622     |
| Total                         | \$ 622            | \$ —    | \$ —    | \$ 622  |

The Company has a large percentage of loans with real estate serving as collateral. Loans to borrowers which are experiencing financial difficulty are primarily valued on a nonrecurring basis at the fair value of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be Level 3 inputs. Third party appraisals are generally obtained when management determines that the borrower is experiencing financial difficulty or at the time it is transferred to OREO. This internal process consists of evaluating the underlying collateral to independently obtained comparable properties. With respect to less complex or smaller credits, an internal evaluation may be performed. Generally, the independent and internal evaluations are updated annually. Factors considered in determining the fair value include, among others, geographic sales trends, the value of comparable surrounding properties and the condition of the property.

For Level 3 assets and liabilities measured at fair value on a non-recurring basis as of September 30, 2024 and December 31, 2023, the significant unobservable inputs used in the fair value measurements were as follows:

| (Dollars in thousands) | Fair Value as of September 30, 2024 |  | Valuation Technique                              | Significant Observable Inputs  | Significant Unobservable Inputs |
|------------------------|-------------------------------------|--|--|--|---------------------------------|
|                        | Fair Value as of December 31, 2023  | Valuation Technique                              |  |  |                                 |
| OREO                   | \$ 544                              | Appraisal Value/Comparison Sales/Other estimates | Appraisals and or sales of comparable properties | Appraisals discounted 6% to 16% for sales commissions and other holding cost |                                 |
| (Dollars in thousands) |                                     |  |  |  |                                 |
| OREO                   | \$ 622                              | Appraisal Value/Comparison Sales/Other estimates | Appraisals and or sales of comparable properties | Appraisals discounted 6% to 16% for sales commissions and other holding cost |                                 |

#### Note 6 - Deposits

The Company's total deposits are comprised of the following at the dates indicated:

| <i>(Dollars in thousands)</i>                              | <b>September 30,<br/>2024</b> | <b>December 31,<br/>2023</b> |
|--|-------------------------------|------------------------------|
| Non-interest bearing demand deposits                       | \$ 441,386                    | \$ 432,333                   |
| Interest bearing demand deposits and money market accounts | 771,319                       | 707,434                      |
| Savings  | 108,641                       | 118,623                      |
| Time deposits of \$250,000 or less                         | 244,266                       | 207,233                      |
| Time deposits greater than \$250,000                       | 78,452                        | 45,378                       |
| <b>Total deposits</b>                                      | <b>\$ 1,644,064</b>           | <b>\$ 1,511,001</b>          |

Time deposits of \$250,000 or less include \$ 22.4 million and \$48.1 million in brokered deposits as of September 30, 2024 and December 31, 2023, respectively.

#### Note 7 - Reportable Segments

The Company's reportable segments represent the distinct product lines the Company offers and are viewed separately for strategic planning by management. The Company has four reportable segments:

- Commercial and Retail Banking: The Company's primary business is to provide deposit and lending products and services to its commercial and retail customers.
- Mortgage Banking: This segment provides mortgage origination services for loans that will be sold to investors in the secondary market, consumer mortgage loans that will be held-for-investment, and consumer residential construction loans. The Company allocates a provision for credit loss, cost of funds, and other operating costs to this segment.
- Investment advisory and non-deposit: This segment provides investment advisory services and non-deposit products.
- Corporate: This segment includes the parent company financial information, including interest on parent company debt and dividend income received from the Bank.

The following tables present selected financial information for the Company's reportable business segments for the three and nine months ended September 30, 2024 and September 30, 2023.

| <i>(Dollars in thousands)</i>                | <b>Commercial<br/>and Retail<br/>Banking</b> | <b>Mortgage<br/>Banking</b> | <b>Investment<br/>Advisory and<br/>Non-Deposit</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--|-----------------------------|--|------------------|---------------------|---------------------|
| <b>Three months ended September 30, 2024</b> |  |                             |  |                  |                     |                     |
| Dividend and Interest Income                 | \$ 21,211                                    | \$ 1,940                    | \$ —   | \$ 1,454         | \$ (1,444)          | \$ 23,161           |
| Interest expense                             | 8,714  | 724                         | —  | 311              | —                   | 9,749               |
| <b>Net interest income</b>                   | <b>\$ 12,497</b>                             | <b>\$ 1,216</b>             | <b>\$ —</b>  | <b>\$ 1,143</b>  | <b>\$ (1,444)</b>   | <b>\$ 13,412</b>    |
| Provision for credit losses                  | (135)  | 119                         | —  | —                | —                   | (16)                |
| Noninterest income                           | 1,400  | 575                         | 1,595  | —                | —                   | 3,570               |
| Noninterest expense                          | 9,606  | 964                         | 1,060  | 361              | —                   | 11,991              |
| <b>Net income before taxes</b>               | <b>\$ 4,426</b>                              | <b>\$ 708</b>               | <b>\$ 535</b>                                      | <b>\$ 782</b>    | <b>\$ (1,444)</b>   | <b>\$ 5,007</b>     |
| Income tax provision (benefit)               | 1,285  | —                           | —  | (139)            | —                   | 1,146               |
| <b>Net income</b>                            | <b>\$ 3,141</b>                              | <b>\$ 708</b>               | <b>\$ 535</b>                                      | <b>\$ 921</b>    | <b>\$ (1,444)</b>   | <b>\$ 3,861</b>     |

| (Dollars in thousands)<br>Three months ended September 30, 2023 | Commercial<br>and Retail<br>Banking | Mortgage<br>Banking | Investment<br>Advisory and<br>Non-Deposit | Corporate | Eliminations | Consolidated |
|---|-------------------------------------|---------------------|---|-----------|--------------|--------------|
| Dividend and Interest Income                                    | \$ 17,646                           | \$ 1,078            | \$ —                                      | \$ 1,360  | \$ (1,350)   | \$ 18,734    |
| Interest expense  | 5,990                               | 332                 | —   | 309       | —            | 6,631        |
| Net interest income   | \$ 11,656                           | \$ 746              | \$ —                                      | \$ 1,051  | \$ (1,350)   | \$ 12,103    |
| Provision for credit losses                                     | 295                                 | 179                 | —   | —         | —            | 474          |
| Noninterest income  | 166                                 | 511                 | 1,187                                     | —         | —            | 1,864        |
| Noninterest expense   | 9,194                               | 949                 | 796                                       | 334       | —            | 11,273       |
| Net income before taxes   | \$ 2,333                            | \$ 129              | \$ 391                                    | \$ 717    | \$ (1,350)   | \$ 2,220     |
| Income tax provision (benefit)                                  | 597                                 | —                   | —   | (133)     | —            | 464          |
| Net income  | \$ 1,736                            | \$ 129              | \$ 391                                    | \$ 850    | \$ (1,350)   | \$ 1,756     |

| (Dollars in thousands)<br>Nine months ended September 30, 2024 | Commercial<br>and Retail<br>Banking | Mortgage<br>Banking | Investment<br>Advisory and<br>Non-Deposit | Corporate | Eliminations | Consolidated |
|--|-------------------------------------|---------------------|---|-----------|--------------|--------------|
| Dividend and Interest Income                                   | \$ 61,269                           | \$ 5,050            | \$ —                                      | \$ 4,209  | \$ (4,180)   | \$ 66,348    |
| Interest expense   | 25,323                              | 1,915               | —   | 927       | —            | 28,165       |
| Net interest income  | \$ 35,946                           | \$ 3,135            | \$ —                                      | \$ 3,282  | \$ (4,180)   | \$ 38,183    |
| Provision for credit losses                                    | 184                                 | 383                 | —   | —         | —            | 567          |
| Noninterest income   | 4,276                               | 1,659               | 4,461                                     | —         | —            | 10,396       |
| Noninterest expense  | 28,760                              | 2,768               | 2,998                                     | 1,113     | —            | 35,639       |
| Net income before taxes  | \$ 11,278                           | \$ 1,643            | \$ 1,463                                  | \$ 2,169  | \$ (4,180)   | \$ 12,373    |
| Income tax provision (benefit)                                 | 3,087                               | —                   | —   | (437)     | —            | 2,650        |
| Net income (loss)  | \$ 8,191                            | \$ 1,643            | \$ 1,463                                  | \$ 2,606  | \$ (4,180)   | \$ 9,723     |

| (Dollars in thousands)<br>Nine months ended September 30, 2023 | Commercial<br>and Retail<br>Banking | Mortgage<br>Banking | Investment<br>Advisory and<br>Non-Deposit | Corporate | Eliminations | Consolidated |
|--|-------------------------------------|---------------------|---|-----------|--------------|--------------|
| Dividend and Interest Income                                   | \$ 49,569                           | \$ 2,525            | \$ —                                      | \$ 4,018  | \$ (3,991)   | \$ 52,121    |
| Interest expense   | 13,974                              | 677                 | —   | 873       | —            | 15,524       |
| Net interest income  | \$ 35,595                           | \$ 1,848            | \$ —                                      | \$ 3,145  | \$ (3,991)   | \$ 36,597    |
| Provision for credit losses                                    | 369                                 | 361                 | —   | —         | —            | 730          |
| Noninterest income   | 3,115                               | 1,040               | 3,335                                     | —         | —            | 7,490        |
| Noninterest expense  | 26,474                              | 2,648               | 2,310                                     | 1,032     | —            | 32,464       |
| Net income before taxes  | \$ 11,867                           | \$ (121)            | \$ 1,025                                  | \$ 2,113  | \$ (3,991)   | \$ 10,893    |
| Income tax provision (benefit)                                 | 2,743                               | —                   | —   | (396)     | —            | 2,347        |
| Net income (loss)  | \$ 9,124                            | \$ (121)            | \$ 1,025                                  | \$ 2,509  | \$ (3,991)   | \$ 8,546     |

The table below presents total assets for the Company's reportable business segments as of September 30, 2024 and December 31, 2023.

| (Dollars in thousands)                | Commercial<br>and Retail<br>Banking | Mortgage<br>Banking | Investment<br>Advisory and<br>Non-Deposit | Corporate  | Eliminations | Consolidated |
|---------------------------------------|-------------------------------------|---------------------|---|------------|--------------|--------------|
| Total Assets as of September 30, 2024 | \$ 1,809,674                        | \$ 132,656          | \$ 8                                      | \$ 174,634 | \$ (173,424) | \$ 1,943,548 |
| Total Assets as of December 31, 2023  | \$ 1,727,245                        | \$ 99,310           | \$ 5                                      | \$ 174,468 | \$ (173,340) | \$ 1,827,688 |

#### Note 8 - Derivative Financial Instruments

Effective May 5, 2023, the Company entered into a pay-fixed/receive-floating interest rate swap (the "Pay-Fixed Swap Agreement") for a notional amount of \$150.0 million that was designated as a fair value hedge in order to hedge the risk of changes in the fair value of the fixed rate loans included in the closed loan portfolio. This fair value hedge converts the hedged loans from a fixed rate to a synthetic floating SOFR rate. The Pay-Fixed Swap Agreement will mature on May 5, 2026 and will pay a fixed coupon rate of 3.58% while receiving the overnight SOFR rate.

The interest rate swap had a notional amount of \$150.0 million at September 30, 2024 and December 31, 2023 and a negative fair value of \$ 82.3 thousand and a positive fair value of \$1.1 million at September 30, 2024 and December 31, 2023, respectively. All changes in fair value are recorded in net interest income. The fair value of this hedge is recorded in either other assets or in other liabilities depending on the position of the hedge with the offset recorded in loans.

#### Note 9 - Leases

The Company has operating leases on three and four of its facilities at September 30, 2024 and December 31, 2023, respectively. The reduction in leases is due to the July 31, 2024 termination of the lease for the downtown Augusta, Georgia location, which was closed June 27, 2024. The termination of the lease resulted in a reduction in right-of-use assets of \$476,000, a reduction of lease liabilities of \$510,000, and a reduction of lease expense of \$34,000. All leases commenced prior to 2022 except for one, "the new lease," which commenced on January 1, 2023 and has a lease term of sixty-nine months with a discount rate of 3.87%. The Right-of-Use ("ROU") asset and lease liability associated with the new lease were recognized at lease commencement by calculating the present value of lease payments over the lease term. An ROU asset of \$823,800 and a lease liability of \$824,600 were recognized upon commencement of the new lease. The three leases, including the new lease, have maturities ranging from May 2027 to December 2038, some of which include extensions of multiple two-year terms. The following tables present information about the Company's leases:

| (Dollars in thousands)                | September 30,<br>2024 | December 31,<br>2023 |
|---------------------------------------|-----------------------|----------------------|
| Right-of-use assets                   | \$ 2,546              | \$ 3,248             |
| Lease liabilities                     | \$ 2,711              | \$ 3,426             |
| Weighted average remaining lease term | 11.34 years           | 11.70 years          |
| Weighted average discount rate        | 4.21%                 | 4.29%                |

| (Dollars in thousands)   | Three Months Ended September 30, |        | Nine Months Ended September 30, |        |
|--|----------------------------------|--------|---------------------------------|--------|
|  | 2024                             | 2023   | 2024                            | 2023   |
| Operating lease cost   | \$ 102                           | \$ 112 | \$ 327                          | \$ 336 |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 129                           | \$ 103 | \$ 340                          | \$ 309 |

The following table shows future undiscounted lease payments for operating leases with initial terms of one year or more as of September 30, 2024.

| (Dollars in thousands)                                      | Operating Leases       |
|---|------------------------|
| Year  |                        |
| 2024  | \$ 93                  |
| 2025  | 377                    |
| 2026  | 386                    |
| 2027  | 363                    |
| 2028  | 303                    |
| Thereafter  | 1,945                  |
| Total undiscounted lease payments                           | \$ 3,467               |
| Less effect of discounting                                  | (756)                  |
| Present value of estimated lease payments (lease liability) | <u><u>\$ 2,711</u></u> |

**Note 10 - Accumulated Other Comprehensive Loss**

The following table presents the changes in each component or accumulated other comprehensive loss net of tax, for the nine months ended September 30, 2024.

| (Dollars in thousands)  | Securities Available for Sale | Securities Held to Maturity | Accumulated Other Comprehensive Loss |
|---|-------------------------------|-----------------------------|--------------------------------------|
| Balance at December 31, 2023  | (17,135)                      | (11,056)                    | (28,191)                             |
| Other comprehensive loss  | 3,947                         | —                           | 3,947                                |
| Amortization of unrealized loss on securities transferred to held-to-maturity | —                             | 1,021                       | 1,021                                |
| Net other comprehensive income during period                                  | 3,947                         | 1,021                       | 4,968                                |
| Balance at September 30, 2024   | (13,188)                      | (10,035)                    | (23,223)                             |

**Note 11 - Subsequent Events**

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Management has reviewed events occurring through the date the financial statements were available to be issued and no other subsequent events occurred requiring accrual or that require disclosure and have not been disclosed in the footnotes to the Company's unaudited consolidated financial statements as of September 30, 2024.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This report, including information included or incorporated by reference in this report, contains statements which constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may relate to, among other matters, the financial condition, results of operations, plans, objectives, future performance, and business of our company. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. 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. The words "may," "approximately," "is likely," "would," "could," "should," "will," "expect," "anticipate," "predict," "project," "potential," "continue," "assume," "believe," "intend," "plan," "forecast," "goal," and "estimate," as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, without limitation, those described under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the U.S. Securities and Exchange Commission (the "SEC") on March 21, 2024 and the following:

- credit losses as a result of, among other potential factors, declining real estate values, increasing interest rates, increasing unemployment, or changes in customer payment behavior or other factors;
- the amount of our loan portfolio collateralized by real estate and weaknesses in the real estate market;
- restrictions or conditions imposed by our regulators on our operations;
- the adequacy of the level of our allowance for credit losses and the amount of credit loss provisions required in future periods;
- examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for credit losses, write-down assets, or take other actions;
- risks associated with actual or potential information gatherings, investigations or legal proceedings by customers, regulatory agencies or others;
- reduced earnings due to higher credit impairment charges resulting from additional decline in the value of our securities portfolio, specifically as a result of increasing default rates, and loss severities on the underlying real estate collateral;
- increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment, which are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets, and that could reduce anticipated or actual margins; temporarily reduce the market value of our available-for-sale investment securities and temporarily reduce accumulated other comprehensive income or increase accumulated other comprehensive loss, which temporarily could reduce shareholders' equity;
- enterprise risk management may not be effective in mitigating risk and reducing the potential for losses;
- changes in political conditions or the legislative or regulatory environment, including governmental initiatives affecting the financial services industry, including as a result of the presidential administration and congressional elections;
- general economic conditions resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation, including the impact of inflation on us, including a decrease in demand for new mortgage loan and commercial real estate loan originations and refinancings, an increase in competition for deposits, and an increase in non-interest expense, which may have an adverse impact on our financial performance;
- changes in access to funding or increased regulatory requirements with regard to funding, which could impair our liquidity;
- FDIC assessment which has increased, and may continue to increase, our cost of doing business;
- cybersecurity risk related to our dependence on internal computer systems and the technology of outside service providers, as well as the potential impacts of third party security breaches, which subject us to potential business disruptions or financial losses resulting from deliberate attacks or unintentional events;
- changes in deposit flows, which may be negatively affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, and returns available to customers on alternative investments;
- changes in technology, including the increasing use of artificial intelligence;

- our current and future products, services, applications and functionality and plans to promote them;
- changes in monetary and tax policies, including potential changes in tax laws and regulations;
- changes in accounting standards, policies, estimates and practices as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the SEC and the Public Company Accounting Oversight Board;
- our assumptions and estimates used in applying critical accounting policies, which may prove unreliable, inaccurate or not predictive of actual results;
- the rate of delinquencies and amounts of loans charged-off;
- the rate of loan growth in recent years and the lack of seasoning of a portion of our loan portfolio;
- our ability to maintain appropriate levels of capital, including levels of capital required under the capital rules implementing Basel III;
- our ability to successfully execute our business strategy;
- our ability to attract and retain key personnel;
- our ability to retain our existing customers, including our deposit relationships;
- our use of brokered deposits may be an unstable and/or an expensive deposit source to fund earning asset growth;
- our ability to obtain brokered deposits as an additional funding source could be limited;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- the potential effects of events beyond our control that may have a destabilizing effect on financial markets and the economy, such as epidemics and pandemics (including COVID-19), war or terrorist activities, such as the war in Ukraine, the Middle East conflict, and the conflict between China and Taiwan, disruptions in our customers' supply chains, disruptions in transportation, essential utility outages or trade disputes and related tariffs;
- disruptions due to flooding, severe weather or other natural disasters; and
- other risks and uncertainties described under "Risk Factors" below.

Because of these and other risks and uncertainties, our actual future results may be materially different from the results indicated by any forward-looking statements. For additional information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see "Risk Factors" under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023. In addition, our past results of operations do not necessarily indicate our future results. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

All forward-looking statements in this report are based on information available to us as of the date of this report. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that these expectations will be achieved. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

## Overview

The following discussion describes our results of operations for the three and nine months ended September 30, 2024 as compared to the three and nine months ended September 30, 2023 and analyzes our financial condition as of September 30, 2024 as compared to December 31, 2023. Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary sources of funds for making these loans and investments are our deposits and borrowings, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield we earn on our interest-earning assets and the rate we pay on our interest-bearing liabilities. There are risks inherent in all loans, so we maintain an allowance for credit losses to absorb our estimate of expected credit losses on existing loans that may become uncollectible. We establish and maintain this allowance by recording a provision for or release of credit losses against our earnings. In the following section, we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

Unless the context requires otherwise, references to the "Company," "we," "us," "our," or similar references mean First Community Corporation and its subsidiaries. References to the "Bank" mean First Community Bank.

## Recent Organizational Events

*Recent or Planned Transitions.* On December 14, 2023, we announced promotions and additions to our Executive Leadership Team. Effective January 1, 2024, Joseph A. "Drew" Painter and Vaughan R. Dozier, Jr. became Executive Vice Presidents in the roles of Co-Chief Commercial and Retail Banking Officers. In their roles as Co-Chief Commercial and Retail Banking Officers, Mr. Painter and Mr. Dozier are responsible for leading the Bank's network of banking offices.

Effective July 1, 2024, J. Ted Nissen became the Chief Executive Officer of the Bank while still retaining the role of President and he also joined the Company's and the Bank's boards of directors. Michael C. Crapps continues in his role as President and Chief Executive Officer of the Company. In his role as Chief Executive Officer of the Bank, Mr. Nissen is responsible for the leadership of day-to-day operations of the Bank including its mortgage and financial planning lines of business. Mr. Crapps will continue to focus on board governance, investor relations, strategy development and growth decisions, client retention and prospecting, and leadership development.

Effective December 31, 2024, Tanya A. Butts intends to retire from her roles as Executive Vice President and Chief Operations/Risk Officer of the Company and Bank. We selected Sarah Donley, our Senior Vice President and Controller and a 27-year employee, as Ms. Butts' successor following a transition period.

On June 27, 2024, we closed our banking office located at 771 Broad Street in downtown Augusta, Georgia. We have three other banking offices in the Central Savannah River Area (CRSA) including locations in Augusta and Evans, Georgia and in Aiken, South Carolina. Cost savings are estimated to be approximately \$327,000 annually on a go-forward basis.

## Recent Industry Events

*Effect of Governmental Monetary Policies.* Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve have major effects upon the levels of bank loans, investments, deposits and borrowings through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member banks' deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies. During 2023, market interest rates increased 1.00% due to an increase in inflation. The target range of federal funds was 5.25% - 5.50% from July 26, 2023 to September 17, 2024. On September 18, 2024, the FOMC reduced the target range of federal funds by 0.50% to 4.75% - 5.00%. The target range of federal funds was 4.75% - 5.00% at September 30, 2024 compared to 5.25% - 5.50% at September 30, 2023. Changes in market interest rates can have a significant impact on the level of income and expense recorded on a large portion of our interest-earning assets and interest-bearing liabilities, and on the market value of all interest-earning assets, other than those possessing a short term to maturity. Furthermore, changes in market interest rates can have a significant impact on the level of mortgage originations and related mortgage banking income.

During 2023, concerns arose with respect to the financial condition of a number of banking organizations in the United States, in particular those with exposure to certain types of depositors and large portfolios of investment securities. On March 10, 2023, Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation and the FDIC was appointed receiver of Silicon Valley Bank. On March 11, 2023, Signature Bank was similarly closed and placed into receivership and concurrently the Federal Reserve Board announced it will make available additional funding to eligible depository institutions to assist eligible banking organizations with potential liquidity needs. On May 1, 2023, First Republic Bank was closed and its assets were seized. For almost a year, regulatory agencies had not closed any further banks with assets greater than \$150 million since the closure of First Republic Bank; however, on April 26, 2024, Republic First Bank closed and was taken over by the FDIC, which simultaneously announced that Fulton Bank would acquire the assets and deposits of Republic First Bank. While our business, balance sheet, and depositor profile differ substantially from banking institutions that are the focus of the greatest scrutiny, the operating environment and public trading prices of financial services sector securities can be highly correlated, in particular in times of stress, which may adversely affect the trading price of our common stock and potentially our results of operations. These bank failures have created market volatility for the financial sector; however, the ultimate ramifications of these events have yet to be seen but will likely result in continued increases in FDIC assessments and may result in additional bank failures throughout the remainder of 2024. These events have not caused any significant changes in deposit balances at the Company since the date of the balance sheet.

## Critical Accounting Estimates

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in the notes to our unaudited consolidated financial statements as of September 30, 2024 and our notes included in the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on March 21, 2024.

Certain accounting policies inherently involve a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported, which could have a material impact on the carrying values of our assets and liabilities and our results of operations. We consider these accounting policies and estimates to be critical accounting policies. We have identified the determination of the allowance for credit losses, income taxes and deferred tax assets and liabilities, goodwill and other intangible assets, and derivative instruments to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new or additional information becomes available or circumstances change, including overall changes in the economic climate and/or market interest rates. Therefore, management has reviewed and approved these critical accounting policies and estimates and has discussed these policies with our Audit and Compliance Committee. A brief discussion of each of these areas appears in our Annual Report on Form 10-K for the year ended December 31, 2023.

There have been no significant changes to our critical accounting estimates as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023.

## Comparison of Results of Operations for Three Months Ended September 30, 2024 to the Three Months Ended September 30, 2023

### Net Income

Our net income for the three months ended September 30, 2024 increased \$2.1 million to \$3.9 million, or \$0.50 diluted earnings per common share, as compared to \$1.8 million, or \$0.23 diluted earnings per common share, for the three months ended September 30, 2023. The \$2.1 million increase in net income between the two periods is primarily due to a \$1.3 million increase in net interest income, a \$490,000 decrease in provision for credit losses, and a \$1.7 million increase in total non-interest income, partially offset by a \$718,000 increase in total non-interest expense and a \$682,000 increase in income tax expense.

- The \$1.3 million increase in net interest income results from a \$177.5 million increase in average earning assets between the two periods.
- The \$16,000 release of provision for credit losses during the three months ended September 30, 2024 was primarily due to a \$23.1 million reduction in unfunded commitments net of unconditionally cancellable commitments and a two basis points reduction in our qualitative factor for reasonable and supportable forecast alternative scenarios due to a slight reduction in the probability of a recession partially offset by a \$7.5 million increase in loans held-for-investment, a slight extension in the average life of the loan portfolio due to lower loan prepayments, and \$68,000 in net charge-offs.
- The \$474,000 provision for credit losses during the three months ended September 30, 2023 is primarily related to a \$59.5 million increase in loans held-for-investment and a \$45.4 million increase in unfunded commitments net of unconditionally cancellable commitments, which was partially offset by reductions in our qualitative factors related to forecast alternative scenarios due to a resilient consumer and economy and changes in staff and markets due to the seasoning of our Rock Hill, South Carolina team and market, which was added in the first quarter of 2022.
- The \$1.7 million increase in non-interest income is primarily related to increases in mortgage banking income of \$64,000, investment advisory fees and non-deposit commissions of \$408,000, ATM debit card income of \$15,000, and bank owned life insurance of \$14,000; and a decrease in loss on sale of securities of \$1.2 million, partially offset by decreases in deposit service charges of \$12,000 and gain on sale of other assets of \$41,000.
- During the three months ended September 2023, we sold \$39.9 million of book value U.S. Treasuries in our available-for-sale investment securities portfolio. While this sale created a one-time pre-tax loss of \$1.2 million, it provided additional liquidity which was used to pay down borrowings and fund loan growth. The weighted average book yield of the securities sold was 1.75% and the projected earn back period is 1.6 years. Such measures transition the balance sheet to be more efficient, improves net interest margin, and positions us for higher earnings in the future.
- The \$718,000 increase in non-interest expense is primarily due to increases in salaries and employee benefits of \$809,000, occupancy of \$17,000, FDIC insurance assessment of \$79,000, core banking and electronic processing and services of \$90,000, ATM/debit card processing of \$63,000, legal and professional of \$26,000, and investment advisory services of \$24,000 partially offset by decreases in equipment of \$25,000, marketing and public relations of \$132,000, other real estate expense of \$10,000, loan processing costs of \$49,000, correspondent services of \$23,000, and debit card and fraud expense of \$250,000.
- Debit card and fraud losses increased \$247,000 to \$277,000 during the three months ended September 30, 2023 compared to \$30,000 during the same period in 2022. Debit card losses were \$46,000 and check fraud losses were \$230,000 during the third quarter of 2023. We experienced an extraordinary spike in mail check fraud losses during the third quarter of 2023. Historically, our fraud losses have been well under those of peers. We believe the third quarter 2023 spike, with over three times the normal customer-reported incidences, was directly related to confirmed local mail thefts within our markets, as well as fraudsters targeting smaller counterfeit check amounts to avoid early detection. Our current case volumes, as reported by customers, suggest that the spike has abated. However, because fraud risk is ever evolving, we have responded with countermeasures including deploying additional resources, and conducting a formal customer education marketing campaign called "THINK TWICE", which requests customers who have been a victim of fraud to enhance their check authorization processes and upgrade to our current fraud detection system.
- Our effective tax rate was 22.89% during the three months ended September 30, 2024 compared to 20.90% during the three months ended September 30, 2023.

## Net Interest Income

Net interest income is our primary source of revenue. Net interest income is the difference between income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on our interest-earning assets and the rates paid on our interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of our interest-earning assets and interest-bearing liabilities.

Net interest income increased \$1.3 million, or 10.8%, to \$13.4 million for the three months ended September 30, 2024 from \$12.1 million for the three months ended September 30, 2023. Our net interest margin remained flat at 2.95% during the three months ended September 30, 2024 compared to 2.95% during the three months ended September 30, 2023. Our net interest margin, on a taxable equivalent basis, was 2.96% for the three months ended September 30, 2024 compared to 2.96% for the three months ended September 30, 2023. Average earning assets were \$1.8 billion for the three months ended September 30, 2024 and \$1.6 billion in the same period of 2023.

- The \$1.3 million increase in net interest income results from a \$177.5 million increase in average earning assets between the two periods.
- The increase in average earning assets was primarily due to increases of \$134.5 million in loans and \$88.5 million in interest bearing deposits in other banks, partially offset by a decrease of \$45.5 million in total securities.
- The increase in our earning asset yield was due to a change in the mix of our earning assets from lower yielding securities to higher yielding loans and short-term investments, which resulted in a higher percentage of earning assets in higher yielding loans and short-term investments, due to an increase in market interest rates, and due to a pay-fixed/receive-floating interest rate swap (the "Pay-Fixed Swap Agreement") described below.
- Investment securities represented 27.0% of average total earning assets for the three months ended September 30, 2024 compared to 32.7% during the same period in 2023. This decline was primarily due to the sale of \$39.9 million of book value U.S. Treasuries in our available-for-sale investment securities portfolio during the third quarter of 2023 and normal principal cash flows from the investment securities portfolio.
- Short-term investments represented 6.5% of average total earning assets for the three months ended September 30, 2024 compared to 1.8% during the same period in 2023.
- Loans represented 66.5% of average total earning assets for the three months ended September 30, 2024 compared to 65.5% during the same period in 2023.
- During 2022 and 2023, market interest rates increased due to an increase in inflation. Market interest rates declined by 0.50% in the third quarter of 2024 primarily due to a reduction in inflation and a slight increase in unemployment. The target range of federal funds was 4.75% - 5.00% at September 30, 2024 compared to 5.25% - 5.50% at September 30, 2023.
- Effective May 5, 2023, we entered into Pay-Fixed Swap Agreement for a notional amount of \$150.0 million that was designated as a fair value hedge in order to hedge the risk of changes in the fair value of the fixed rate loans included in the closed loan portfolio. This fair value hedge converts the hedged loans from a fixed rate to a synthetic floating SOFR rate. The Pay-Fixed Swap Agreement will mature on May 5, 2026 and we will pay a fixed coupon rate of 3.58% while receiving the overnight SOFR rate. This interest rate swap positively impacted interest on loans by \$681,000 during the three months ended September 30, 2024, compared to a positive impact of interest on loans of \$626,000 during the three months ended September 30, 2023. Loan yields and net interest margin both benefited during the three months ended September 30, 2024 with an increase of 23 basis points and 15 basis points, respectively. Loan yields and net interest margin both benefited during the three months ended September 30, 2023 with an increase of 25 basis points and 16 basis points, respectively.

Average loans increased \$134.5 million, or 12.6%, to \$1.2 billion for the three months ended September 30, 2024 from \$1.1 billion for the same period in 2023. Our loan (including loans held-for-sale) to deposit ratio on average during the three months ended September 30, 2024 was 74.0%, as compared to 74.4% during same period in 2023. The yield on loans increased 59 basis points to 5.73% during the three months ended September 30, 2024 from 5.14% during the same period in 2023 due to an increase in market interest rates.

Average securities for the three months ended September 30, 2024 decreased \$45.5 million, or 8.5%, to \$487.6 million from \$533.1 million during the same period in 2023. Short-term investments and CDs increased \$88.5 million to \$118.0 million during the three months ended September 30, 2024 from \$29.5 million during the same period in 2023. The increase in short-term investments was due to our decision to hold excess liquidity in interest bearing deposits at the Federal Reserve Bank. The yield on our securities portfolio increased to 3.53% for the three months ended September 30, 2024 from 3.42% for the same period in 2023. The yield on our short-term investments improved to 5.23% for the three months ended September 30, 2024 from 4.51%.

The yields on earning assets for the three months ended September 30, 2024 and 2023 were 5.10% and 4.56%, respectively.

The cost of interest-bearing liabilities was 2.96% during the three months ended September 30, 2024 compared to 2.27% during the same period in 2023. The cost of deposits, including demand deposits, was 2.03% during the three months ended September 30, 2024 compared to 1.32% during the same period in 2023. The cost of funds, including demand deposits, was 2.21% during the three months ended September 30, 2024 compared to 1.64% during the same period in 2023. We continue to focus on growing our pure deposits (demand deposits, interest-bearing transaction accounts, savings deposits, money market accounts, and IRAs) plus customer cash management repurchase agreements as these accounts tend to be low-cost funding and assist us in controlling our overall cost of funds. Average pure deposits plus customer cash management repurchase agreements increased \$47.0 million or 3.5% to \$1.4 billion during the three months ended September 30, 2024 from \$1.3 billion during the same period in 2023. During the three months ended September 30, 2024, pure deposits plus customer cash management repurchase agreements averaged 82.6% of total deposits plus customer cash management repurchase agreements as compared to 89.7% during the same period of 2023. This reduction is related to a higher rate of growth in our certificates of deposit compared to pure deposits due to the higher interest rate environment. The growth in certificates of deposit is related to both customer certificates of deposit and brokered certificates of deposit. We began issuing brokered certificates of deposit during the third quarter of 2023 to supplement our funding mix. As of September 30, 2024, we had \$22.4 million in brokered certificates of deposit ranging in initial terms from 18 months to three years, with the three year term callable after six months. We had \$48.1 million and \$48.1 million in brokered certificates of deposit at December 31, 2023 and at September 30, 2023, respectively.

*Average Balances, Income Expenses and Rates.* The following table depicts, for the periods indicated, certain information related to our average balance sheet and our average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

**FIRST COMMUNITY CORPORATION**  
**Yields on Average Earning Assets and**  
**Rates on Average Interest-Bearing Liabilities**

|  | Three months ended September 30, 2024 |                      |              | Three months ended September 30, 2023 |                      |              |
|--|---------------------------------------|----------------------|--------------|---------------------------------------|----------------------|--------------|
|  | Average Balance                       | Interest Earned/Paid | Yield/Rate   | Average Balance                       | Interest Earned/Paid | Yield/Rate   |
| <b>Assets</b>  |                                       |                      |              |                                       |                      |              |
| Earning assets   |                                       |                      |              |                                       |                      |              |
| Loans <sup>(1)</sup>                                       | \$ 1,200,150                          | \$ 17,279            | 5.73%        | \$ 1,065,698                          | \$ 13,804            | 5.14%        |
| Non-taxable securities                                     | 48,641                                | 355                  | 2.90%        | 50,569                                | 366                  | 2.87%        |
| Taxable securities   | 438,981                               | 3,975                | 3.60%        | 482,525                               | 4,229                | 3.48%        |
| Int bearing deposits in other banks                        | 117,979                               | 1,552                | 5.23%        | 29,468                                | 335                  | 4.51%        |
| Total earning assets                                       | <u>\$ 1,805,751</u>                   | <u>\$ 23,161</u>     | <u>5.10%</u> | <u>\$ 1,628,260</u>                   | <u>\$ 18,734</u>     | <u>4.56%</u> |
| Cash and due from banks                                    | 24,202                                |                      |              | 25,782                                |                      |              |
| Premises and equipment                                     | 30,270                                |                      |              | 31,078                                |                      |              |
| Goodwill and other intangibles                             | 15,142                                |                      |              | 15,300                                |                      |              |
| Other assets   | 53,346                                |                      |              | 56,044                                |                      |              |
| Allowance for credit losses - investments                  | (27)                                  |                      |              | (37)                                  |                      |              |
| Allowance for credit losses - loans                        | <u>(12,984)</u>                       |                      |              | <u>(11,757)</u>                       |                      |              |
| Total assets   | <u>\$ 1,915,700</u>                   |                      |              | <u>\$ 1,744,670</u>                   |                      |              |
| <b>Liabilities</b>   |                                       |                      |              |                                       |                      |              |
| Interest-bearing liabilities                               |                                       |                      |              |                                       |                      |              |
| Interest-bearing transaction accounts                      | \$ 321,183                            | \$ 999               | 1.24%        | \$ 297,926                            | \$ 519               | 0.69%        |
| Money market accounts                                      | 422,719                               | 3,598                | 3.39%        | 378,931                               | 2,866                | 3.00%        |
| Savings deposits   | 109,956                               | 114                  | 0.41%        | 126,071                               | 72                   | 0.23%        |
| Time deposits  | 321,954                               | 3,576                | 4.42%        | 182,252                               | 1,320                | 2.87%        |
| Fed funds purchased  | 40                                    | —                    | 0.00%        | 1,587                                 | 20                   | 5.00%        |
| Securities sold under agreements to repurchase             | 69,070                                | 506                  | 2.91%        | 71,492                                | 446                  | 2.48%        |
| FHLB advances  | 50,000                                | 646                  | 5.14%        | 83,261                                | 1,079                | 5.14%        |
| Other long-term debt                                       | 14,964                                | 310                  | 8.24%        | 14,964                                | 309                  | 8.19%        |
| Total interest-bearing liabilities                         | <u>\$ 1,309,886</u>                   | <u>\$ 9,749</u>      | <u>2.96%</u> | <u>\$ 1,156,484</u>                   | <u>\$ 6,631</u>      | <u>2.27%</u> |
| Demand deposits  | 445,347                               |                      |              | 447,643                               |                      |              |
| Allowance for credit losses - unfunded commitments         | 489                                   |                      |              | 431                                   |                      |              |
| Other liabilities  | 20,824                                |                      |              | 15,035                                |                      |              |
| Shareholders' equity                                       | <u>139,154</u>                        |                      |              | <u>125,077</u>                        |                      |              |
| Total liabilities and shareholders' equity                 | <u>\$ 1,915,700</u>                   |                      |              | <u>\$ 1,744,670</u>                   |                      |              |
| Cost of deposits, including demand deposits                |                                       |                      | 2.03%        |                                       |                      | 1.32%        |
| Cost of funds, including demand deposits                   |                                       |                      | 2.21%        |                                       |                      | 1.64%        |
| Net interest spread  |                                       |                      | 2.14%        |                                       |                      | 2.28%        |
| Net interest income/margin                                 | <u>\$ 13,412</u>                      |                      | 2.95%        |                                       | <u>\$ 12,103</u>     | 2.95%        |
| Net interest income/margin (tax equivalent) <sup>(2)</sup> | <u>\$ 13,448</u>                      |                      | 2.96%        |                                       | <u>\$ 12,165</u>     | 2.96%        |

(1) All loans and deposits are domestic. Average loan balances include non-accrual loans and loans held-for-sale.

(2) Based on a 21.0% marginal tax rate.

The table below sets forth the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities.

| Three Months Ended September 30,<br>2024 versus 2023 |   |          |          |  |  |
|--|---|----------|----------|--|--|
|  | Increase (Decrease)<br>Due to Changes in <sup>(1)</sup> |          |          |  |  |
|  | Volume  | Rate     | Total    |  |  |
| (in thousands)                                       |   |          |          |  |  |
| <b>Interest income:</b>                              |   |          |          |  |  |
| Loans  | \$ 1,845  | \$ 1,630 | \$ 3,475 |  |  |
| Non-taxable securities                               | (14)  | 3        | (11)     |  |  |
| Taxable securities                                   | (391)   | 137      | (254)    |  |  |
| Interest bearing deposits in other banks             | 1,156   | 61       | 1,217    |  |  |
| Total interest income                                | \$ 2,596  | \$ 1,831 | \$ 4,427 |  |  |
| <b>Interest expense:</b>                             |   |          |          |  |  |
| Interest-bearing transaction accounts                | \$ 43   | \$ 437   | \$ 480   |  |  |
| Money market accounts                                | 351   | 381      | 732      |  |  |
| Savings deposits                                     | (10)  | 52       | 42       |  |  |
| Time deposits  | 1,330   | 926      | 2,256    |  |  |
| Federal funds purchased                              | (10)  | (10)     | (20)     |  |  |
| Securities sold under agreements to repurchase       | (16)  | 76       | 60       |  |  |
| FHLB advances  | (430)   | (3)      | (433)    |  |  |
| Other long-term debt                                 | —   | 1        | 1        |  |  |
| Total interest expense                               | \$ 1,258  | \$ 1,860 | \$ 3,118 |  |  |
| Net interest income                                  | \$ 1,338  | \$ (29)  | \$ 1,309 |  |  |

(1) The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

#### Non-interest Income and Non-interest Expense

Non-interest income during the three months ended September 30, 2024 increased \$1.7 million to \$3.6 million from \$1.9 million during the same period in 2023. The increase in non-interest income was primarily related to increases of \$64,000 in mortgage banking income, \$408,000 in investment advisory fees and non-deposit commissions, \$38,000 in other non-interest income, and a decrease of \$1.2 million in loss on sale of securities, partially offset by decreases of \$12,000 in deposit service charges and \$41,000 in gain on sale of other assets.

Mortgage banking income increased \$64,000 to \$575,000 during the three months ended September 30, 2024 from \$511,000 during the same period in 2023. Total production in the mortgage line of business in the three months ended September 30, 2024 was \$38.1 million, which was comprised of \$19.5 million in secondary market loans, \$8.7 million in adjustable rate mortgages (ARMs), and \$9.9 million in commitments for new construction residential real estate loans. Fee revenue from the mortgage line of business was \$575,000 for the three months ended September 30, 2024, which includes \$571,000 associated with the secondary market loans with a gain-on-sale margin of 2.92%. This compares to production year-over-year of \$41.7 million which was comprised of \$17.3 million in secondary market loans, \$11.4 million in ARMs, and \$13.0 million in commitments for new construction residential real estate loans during the three months ended September 30, 2023. Fee revenue from the mortgage line of business was \$511,000, which includes \$508,000 associated with the secondary market loans with a gain-on-sale margin of 2.93% during the three months ended September 30, 2023.

With the headwinds of rising interest rates, we began to market an adjustable rate mortgage (ARM) product during the second quarter of 2022 to provide borrowers with an alternative to fixed-rate mortgages and to help offset anticipated mortgage production challenges. Currently, we are offering 5/6, 7/6, and 10/6 ARM loans that are originated for our loans held-for-investment portfolio. Furthermore, we added a new construction residential real estate team and product during the latter part of 2022. As these ARM and new construction residential real estate loans are being held on our balance sheet as loans held-for-investment, the result is additive to loan growth and interest income but results in less gain on sale fee income, which is reported in noninterest income as mortgage banking income.

Investment advisory fees rose \$408,000 to \$1.6 million during the three months ended September 30, 2024 from \$1.2 million during the same period in 2023. Total assets under management increased to \$901.6 million at September 30, 2024 compared to \$755.4 million at December 31, 2023 and \$674.5 million at September 30, 2023. Our net new assets were \$6.0 million during the three months ended September 30, 2024. Furthermore, our investment performance for the three months ended September 30, 2024 was 3.5% compared to 5.5% for the S&P 500; and our investment performance for the 12-month period ended September 30, 2024 was 29.2% compared to 34.4% for the S&P 500. Our customers' assets under management are not fully invested in only equities. Our assets under management include bonds and cash.

Loss on sale of securities improved by \$1.2 million to zero during the three months ended September 30, 2024 compared to a loss of \$1.2 million during the same period in 2023. The \$1.2 million loss on sale of securities during the three months ended September 30, 2023 was related to the previously mentioned \$39.9 million sale of book value U.S. Treasuries in our available-for-sale investment securities portfolio.

Gain on sale of other assets declined \$41,000 to \$5,000 during the three months ended September 30, 2024 from \$46,000 during the same period in 2023 due to a sale of other real estate owned during the three months ended September 30, 2023.

Other non-interest income increased \$35,000 to \$1.2 million during the three months ended September 30, 2024 from \$1.1 million during the same period in 2023. The \$35,000 increase was primarily due to increased in ATM debit card income of \$15,000 and bank owned life insurance of \$14,000.

The following table shows the components of non-interest income for the three-month periods ended September 30, 2024 and September 30, 2023.

| (Dollars in thousands)                               | Three months ended<br>September 30, |                 |
|--|-------------------------------------|-----------------|
|  | 2024                                | 2023            |
| Deposit service charges                              | \$ 228                              | \$ 240          |
| Mortgage banking income                              | 575                                 | 511             |
| Investment advisory fees and non-deposit commissions | 1,595                               | 1,187           |
| Loss on sale of securities                           | —                                   | (1,249)         |
| Gain on sale of other assets                         | 5                                   | 46              |
| ATM debit card income                                | 703                                 | 688             |
| Bank owned life insurance                            | 203                                 | 189             |
| Rental income  | 102                                 | 94              |
| Other service fees including safe deposit box fees   | 51                                  | 58              |
| Wire transfer fees                                   | 31                                  | 30              |
| Other  | 77                                  | 70              |
| <b>Total</b>   | <b>\$ 3,570</b>                     | <b>\$ 1,864</b> |

Non-interest expense increased \$718,000 during the three months ended September 30, 2024 to \$12.0 million compared to \$11.3 million during the same period in 2023. The \$718,000 increase in non-interest expense is primarily due to increases in salaries and employee benefits, occupancy, FDIC insurance assessments, partially offset by decreases in equipment, marketing and public relations, other real estate expense, net, and other non-interest expense.

- Salary and benefits expense increased \$809,000 to \$7.4 million during the three months ended September 30, 2024 from \$6.6 million during the same period in 2023. This increase is primarily a result of normal salary adjustments, higher mortgage banking and financial planning and investment advisory commissions, and higher incentive accruals related to higher performance levels. We had 260 full-time employees and nine part-time employees at September 30, 2024 compared to 253 full-time employees and 12 part-time employees at September 30, 2023.
- Occupancy fees increased \$17,000 to \$793,000 during the three months ended September 30, 2024 from \$776,000 during the same period in 2023 primarily due to higher building and yard maintenance costs.
- FDIC assessments increased \$79,000 to \$290,000 during the three months ended September 30, 2024 compared to \$211,000 during the same period in 2023 due to an increase in our FDIC assessment rate and our assets.
- Equipment expense declined \$25,000 to \$391,000 during the three months ended September 30, 2024 from \$416,000 during the same period in 2023 primarily due to lower equipment depreciation.

- Marketing and public relations costs declined \$132,000 to \$477,000 during the three months ended September 30, 2024 from \$609,000 during the same period in 2023 primarily due to the timing of planned media production and campaigns. Marketing expenses, while planned and budgeted on an annual basis, can vary significantly between quarters depending on the needs of the company.
- Other real estate expenses decreased \$10,000 to \$11,000 during the three months ended September 30, 2024 from \$21,000 in during the same period in the prior year.
- Other non-interest expense decreased \$21,000 to \$2.6 million during the three months ended September 30, 2024 from \$2.6 million during the same period in 2023.
  - Core banking and electronic processing and services increased \$93,000 to \$694,000 from \$601,000 primarily higher customer activity and enhanced technology.
  - ATM/debit card processing increased \$63,000 to \$338,000 from \$275,000 primarily due to higher customer activity and enhanced technology.
  - Software subscriptions and services increased \$36,000 to \$298,000 from \$262,000 primarily due to new subscriptions and services and higher renewal prices.
  - Debit and fraud losses declined \$250,000 to \$27,000 from \$277,000 due to the previously mentioned extraordinary spike in mail check fraud losses during the third quarter of 2023.
  - Investment advisory services increased \$24,000 to \$92,000 from \$68,000 due to an increase in assets under management.
  - Loan processing and closing costs declined \$49,000 to \$56,000 from \$105,000 primarily due to lower average new loan sizes in 2024 and fees paid for a home equity campaign in 2023.
  - Legal and professional fees increased \$26,000 to \$224,000 from \$198,000 due to higher audit expenses partially offset by lower legal fees.

The following table shows the components of non-interest expense for the three-month periods ended September 30, 2024 and September 30, 2023.

| (Dollars in thousands)                               | Three months ended<br>September 30, |                  |
|--|-------------------------------------|------------------|
|  | 2024                                | 2023             |
| Salaries and employee benefits                       | \$ 7,422                            | \$ 6,613         |
| Occupancy  | 793                                 | 776              |
| Equipment  | 391                                 | 416              |
| Marketing and public relations                       | 477                                 | 609              |
| FDIC insurance assessments                           | 290                                 | 211              |
| Other real estate expense                            | 11                                  | 21               |
| Amortization of intangibles                          | 40                                  | 39               |
| Core banking and electronic processing and services* | 694                                 | 601              |
| ATM/debit card processing                            | 338                                 | 275              |
| Software subscriptions and services                  | 298                                 | 262              |
| Supplies   | 44                                  | 27               |
| Telephone  | 107                                 | 122              |
| Courier  | 80                                  | 71               |
| Correspondent services                               | 72                                  | 95               |
| Insurance  | 97                                  | 96               |
| Debit card and fraud losses                          | 27                                  | 277              |
| Investment advisory services                         | 92                                  | 68               |
| Loan processing and closing costs                    | 56                                  | 105              |
| Director fees  | 156                                 | 143              |
| Legal and professional fees                          | 224                                 | 198              |
| Shareholder expense                                  | 58                                  | 48               |
| Other  | 224                                 | 200              |
| <b>Total</b>   | <b>\$ 11,991</b>                    | <b>\$ 11,273</b> |

\* Core banking and electronic processing and services includes core processing, bill payment, online banking, remote deposit capture, wire processing services and postage costs for mailing customer notices and statements.

## Income Tax Expense

We incurred income tax expense of \$1.1 million and \$464,000 for the three months ended September 30, 2024 and 2023, respectively. Our effective tax rate was 22.89% and 20.90% for the three months ended September 30, 2024 and 2023, respectively.

## **Comparison of Results of Operations for Nine Months Ended September 30, 2024 to the Nine Months Ended September 30, 2023**

### Net Income

Our net income for the nine months ended September 30, 2024 increased \$1.2 million to \$9.7 million, or \$0.14 diluted earnings per common share, from \$8.5 million, or \$1.12 diluted earnings per common share for the nine months ended September 30, 2023. The increase in net income between the two periods is primarily due to a \$1.6 million increase in net interest income, a \$163,000 decline in provision for credit losses, and a \$2.9 million increase in total non-interest income, partially offset by a \$3.2 million increase in total non-interest expense and a \$303,000 increase in income tax expense.

- The \$1.6 million increase in net interest income results from an increase of \$156.2 million in average earning assets, partially offset by a reduction of 15 basis points in the net interest margin between the two periods.
- The \$567,000 provision for credit losses during the nine months ended September 30, 2024 is primarily related to a \$62.6 million increase in loans held-for-investment, a slight extension in the average life of the loan portfolio due to lower loan prepayments, and \$95,000 in net charge-offs partially offset by two basis points of reduction in our qualitative factors primarily related to our reasonable and supportable forecast alternative scenarios qualitative factor due to a slight reduction in the probability of a recession and a \$48.3 million reduction in our unfunded commitments net of unconditionally cancellable commitments. The \$730,000 provision for credit losses during the nine months ended September 30, 2023 is primarily related to a \$110.8 million increase in loans held-for-investment, a \$60.2 million increase in unfunded commitments net of unconditionally cancellable commitments, and an increase in our changes in staff, markets, and product qualitative factor related to our new residential construction mortgage team and product partially offset by a reduction in our qualitative factors for changes in staff, markets, and products due to the seasoning of our Rock Hill, South Carolina team and market, which was added in the first quarter of 2022, and a reduction in our qualitative factors due to a \$4.8 million reduction in non-accrual loans.
- The \$2.9 million increase in non-interest income is primarily related to increases in deposit service charges of \$30,000, mortgage banking income of \$619,000, investment advisory fees and non-deposit commissions of \$1.1 million, other non-interest income of \$28,000, and a decrease in loss on sale of securities of \$1.2 million partially offset by a decrease of \$146,000 in gain on sale of other assets. Other non-interest income includes non-recurring income of \$95,000 during the nine months ended September 30, 2024 related to a gain on insurance proceeds of \$101,000 partially offset by a loss on disposition of assets on the closing of our downtown Augusta, Georgia banking office of \$6,000. Other non-interest income includes non-recurring income of \$121,000 during the nine months ended September 30, 2023 is related to a bank owned life insurance claim of \$93,000 and gains on insurance proceeds of \$28,000.
- Non-interest expense increased \$3.2 million primarily due to an increase of \$2.4 million in salaries and employee benefits, \$256,000 in FDIC insurance assessments, \$255,000 in other real estate expense, and \$503,000 in other non-interest expense, partially offset by decreases of \$98,000 in occupancy, \$91,000 in equipment, \$24,000 in marketing and public relations
- Our effective tax rate was 21.42% during the nine months ended September 30, 2024 compared to 21.55% during the nine months ended September 30, 2023. The reduction in the effective tax rate was due to a non-recurring adjustment of \$149,000 during the nine months ended September 30, 2024.

## Net Interest Income

Net interest income is our primary source of revenue. Net interest income is the difference between income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on our interest-earning assets and the rates paid on our interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of our interest-earning assets and interest-bearing liabilities.

Net interest income increased \$1.6 million, or 4.3%, to \$38.2 million for the nine months ended September 30, 2024 from \$36.6 million for the nine months ended September 30, 2023. Our net interest margin decreased by 15 basis points to 2.89% during the nine months ended September 30, 2024 from 3.04% during the nine months ended September 30, 2023. Our net interest margin, on a taxable equivalent basis, was 2.89% for the nine months ended September 30, 2024 compared to 3.06% for the nine months ended September 30, 2023. Average earning assets increased \$156.2 million, or 9.7%, to \$1.8 billion for the nine months ended September 30, 2024 compared to \$1.6 billion in the same period of 2023.

- The \$1.6 million increase in net interest income results from increases of \$156.2 million in average earning assets, partially offset by a reduction of 15 basis points in the net interest margin between the two periods.
- The increase in average earning assets was primarily due to a \$152.6 million increase in average loans and a \$64.5 million increase in average interest bearing deposits in other banks, partially offset by a \$60.8 million decrease in total securities.
- The increase in our earning asset yield was due to a change in the mix of our earning assets from lower yielding securities to higher yielding loans and short-term investments, which resulted in a higher percentage of earning assets in higher yielding loans and short-term investments, due to the higher market interest rate environment, and due to a pay-fixed/receive-floating interest rate swap (the "Pay-Fixed Swap Agreement") described below.
  - Investment securities represented 27.9% of average total earning assets for the nine months ended September 30, 2024 compared to 34.4% during the same period in 2023.
  - Short-term investments represented 5.6% of average total earning assets for the nine months ended September 30, 2024 compared to 2.1% during the same period in 2023.
  - Loans represented 66.5% of average total earning assets for the nine months ended September 30, 2024 compared to 63.5% during the same period in 2023.
  - During 2022 and 2023, market interest rates increased due to an increase in inflation, however, the Federal Reserve began lowering interest rates in the third quarter of 2024. The target range of federal funds was 4.75% - 5.00% at September 30, 2024 compared to 5.25% - 5.50% at September 30, 2023.
  - Effective May 5, 2023, we entered into Pay-Fixed Swap Agreement for a notional amount of \$150.0 million that was designated as a fair value hedge in order to hedge the risk of changes in the fair value of the fixed rate loans included in the closed loan portfolio. This fair value hedge converts the hedged loans from a fixed rate to a synthetic floating SOFR rate. The Pay-Fixed Swap Agreement will mature on May 5, 2026 and we will pay a fixed coupon rate of 3.58% while receiving the overnight SOFR rate. This interest rate swap positively impacted interest on loans by \$2.0 million during the nine months ended September 30, 2024. Loan yields and net interest margin both benefited during the nine months ended September 30, 2024 with an increase of 24 basis points and 15 basis points, respectively. During the nine months ended September 30, 2023, the interest rate swap positively impacted interest on loans by \$962,000, and loan yields and net interest margin both benefited, with an increase of 13 and eight basis points, respectively.

Average loans increased \$152.6 million, or 14.9%, to \$1.2 billion for the nine months ended September 30, 2024 from \$1.0 billion for the same period in 2023. Our loan (including loans held-for-sale) to deposit ratio on average during the nine months ended September 30, 2024 was 74.9%, as compared to 72.7% during the same period in 2023. Our growth in average loans during the nine months ended September 30, 2024 from the same period in 2023 of \$152.6 million was exceeded by our increase in deposits of \$162.9 million during the same period. The yield on loans increased 72 basis points to 5.59% during the nine months ended September 30, 2024 from 4.87% during the same period in 2023 due to an increase in market interest rates and the Pay-Fixed Swap Agreement.

Average securities for the nine months ended September 30, 2024 declined \$60.8 million, or 11.0%, to \$492.7 million from \$553.5 million during the same period in 2023. The decline in securities was due to the deployment of lower yielding securities into higher yielding loans. Short-term investments increased \$64.5 million to \$98.5 million during the nine months ended September 30, 2024 from \$34.1 million during the same period in 2023. The increase in short-term investments was due to our decision to hold excess liquidity in interest bearing deposits at the Federal Reserve Bank. The yield on our securities portfolio increased to 3.62% for the nine months ended September 30, 2024 from 3.29% for the same period in 2023. The yield on our short-term investments increased to 5.11% for the nine months ended September 30, 2024 from 4.80% for the same period in 2023.

The yields on earning assets for the nine months ended September 30, 2024 and 2023 were 5.01% and 4.33%, respectively.

The cost of interest-bearing liabilities was 2.92% during the nine months ended September 30, 2024 compared to 1.83% during the same period in 2023. The cost of deposits, including demand deposits, was 1.97% during the nine months ended September 30, 2024 compared to 0.96% during the same period in 2023. The cost of funds, including demand deposits, was 2.18% during the nine months ended September 30, 2024 compared to 1.31% during the same period in 2023. We continue to focus on growing our pure deposits (demand deposits, interest-bearing transaction accounts, savings deposits, money market accounts, and IRAs) plus customer cash management repurchase agreements as these accounts tend to be low-cost funding and assist us in controlling our overall cost of funds. Average pure deposits plus customer cash management repurchase agreements increased \$14.8 million or 1.1% to \$1.4 billion during the nine months ended September 30, 2024 from \$1.4 billion during the same period in 2023. During the nine months ended September 30, 2024, pure deposits plus customer cash management repurchase agreements averaged 83.2% of total deposits plus customer cash management repurchase agreements as compared to 91.2% during the same period of 2023. This reduction is related to a higher rate of growth in our certificates of deposit compared to pure deposits due to the higher interest rate environment. The growth in certificates of deposit is related to both customer certificates of deposit and brokered certificates of deposit. We began issuing brokered certificates of deposit during the third quarter of 2023 to supplement our funding mix. As of September 30, 2024, we had \$22.4 million in brokered certificates of deposit ranging in initial terms from 18 months to three years, with the three year term callable after six months. We had \$48.1 million and \$48.1 million in brokered certificates of deposit at December 31, 2023 and at September 30, 2023, respectively.

*Average Balances, Income Expenses and Rates.* The following table depicts, for the periods indicated, certain information related to our average balance sheet and our average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

**FIRST COMMUNITY CORPORATION**  
**Yields on Average Earning Assets and**  
**Rates on Average Interest-Bearing Liabilities**

|  | Nine months ended September 30, 2024 |                      |              | Nine months ended September 30, 2023 |                      |              |
|--|--------------------------------------|----------------------|--------------|--------------------------------------|----------------------|--------------|
|  | Average Balance                      | Interest Earned/Paid | Yield/Rate   | Average Balance                      | Interest Earned/Paid | Yield/Rate   |
| <b>Assets</b>  |                                      |                      |              |                                      |                      |              |
| Earning assets   |                                      |                      |              |                                      |                      |              |
| Loans <sup>(1)</sup>                                       | \$ 1,176,007                         | \$ 49,230            | 5.59%        | \$ 1,023,428                         | \$ 37,277            | 4.87%        |
| Non-taxable securities                                     | 48,959                               | 1,070                | 2.92%        | 50,950                               | 1,109                | 2.91%        |
| Taxable securities   | 443,748                              | 12,279               | 3.70%        | 502,546                              | 12,513               | 3.33%        |
| Int bearing deposits in other banks                        | 98,480                               | 3,768                | 5.11%        | 34,016                               | 1,221                | 4.80%        |
| Fed funds sold   | 34                                   | 1                    | 3.93%        | 41                                   | 1                    | 3.26%        |
| Total earning assets                                       | <u>\$ 1,767,228</u>                  | <u>\$ 66,348</u>     | <u>5.01%</u> | <u>\$ 1,610,981</u>                  | <u>\$ 52,121</u>     | <u>4.33%</u> |
| Cash and due from banks                                    | 24,074                               |                      |              | 25,760                               |                      |              |
| Premises and equipment                                     | 30,403                               |                      |              | 31,257                               |                      |              |
| Goodwill and other intangibles                             | 15,181                               |                      |              | 15,339                               |                      |              |
| Other assets   | 54,397                               |                      |              | 54,122                               |                      |              |
| Allowance for credit losses - investments                  | (29)                                 |                      |              | (41)                                 |                      |              |
| Allowance for credit losses - loans                        | (12,643)                             |                      |              | (11,563)                             |                      |              |
| Total assets   | <u>\$ 1,878,611</u>                  |                      |              | <u>\$ 1,725,855</u>                  |                      |              |
| <b>Liabilities</b>   |                                      |                      |              |                                      |                      |              |
| Interest-bearing liabilities                               |                                      |                      |              |                                      |                      |              |
| Interest-bearing transaction accounts                      | \$ 305,316                           | \$ 2,486             | 1.09%        | \$ 310,598                           | \$ 1,115             | 0.48%        |
| Money market accounts                                      | 410,230                              | 10,327               | 3.36%        | 350,109                              | 6,424                | 2.45%        |
| Savings deposits   | 113,306                              | 341                  | 0.40%        | 137,529                              | 193                  | 0.19%        |
| Time deposits  | 304,746                              | 10,056               | 4.41%        | 156,954                              | 2,430                | 2.07%        |
| Fed funds purchased  | 16                                   | —                    | —%           | 1,471                                | 53                   | 4.82%        |
| Securities sold under agreements to repurchase             | 74,884                               | 1,611                | 2.87%        | 76,129                               | 1,165                | 2.05%        |
| FHLB advances  | 63,066                               | 2,417                | 5.12%        | 87,487                               | 3,271                | 5.00%        |
| Other long-term debt                                       | 14,964                               | 927                  | 8.27%        | 14,964                               | 873                  | 7.80%        |
| Total interest-bearing liabilities                         | <u>\$ 1,286,528</u>                  | <u>\$ 28,165</u>     | <u>2.92%</u> | <u>\$ 1,135,241</u>                  | <u>\$ 15,524</u>     | <u>1.83%</u> |
| Demand deposits  | 437,418                              |                      |              | 452,884                              |                      |              |
| Allowance for credit losses - unfunded                     |                                      |                      |              |                                      |                      |              |
| commitments  | 532                                  |                      |              | 404                                  |                      |              |
| Other liabilities  | 19,163                               |                      |              | 14,318                               |                      |              |
| Shareholders' equity                                       | 134,970                              |                      |              | 123,008                              |                      |              |
| Total liabilities and shareholders' equity                 | <u>\$ 1,878,611</u>                  |                      |              | <u>\$ 1,725,855</u>                  |                      |              |
| Cost of deposits, including demand deposits                |                                      |                      | 1.97%        |                                      |                      | 0.96%        |
| Cost of funds, including demand deposits                   |                                      |                      | 2.18%        |                                      |                      | 1.31%        |
| Net interest spread  |                                      |                      | 2.09%        |                                      |                      | 2.50%        |
| Net interest income/margin                                 | <u>\$ 38,183</u>                     | <u>2.89%</u>         |              | <u>\$ 36,597</u>                     | <u>3.04%</u>         |              |
| Net interest income/margin (tax equivalent) <sup>(2)</sup> | <u>\$ 38,298</u>                     | <u>2.89%</u>         |              | <u>\$ 36,833</u>                     | <u>3.06%</u>         |              |

(1) All loans and deposits are domestic. Average loan balances include non-accrual loans and loans held-for-sale.

(2) Based on a 21.0% marginal tax rate.

The table below sets forth the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities.

| Nine Months Ended September 30,<br>2024 versus 2023 |   |                   |                 |  |  |
|---|---|-------------------|-----------------|--|--|
|   | Increase (Decrease)<br>Due to Changes in <sup>(1)</sup> |                   |                 |  |  |
|   | Volume  | Rate              | Total           |  |  |
|   | (in thousands)  |                   |                 |  |  |
| <b>Interest income:</b>                             |   |                   |                 |  |  |
| Loans   | \$ 5,972  | \$ 5,981          | \$ 11,953       |  |  |
| Non-taxable securities                              | (43)  | 4                 | (39)            |  |  |
| Taxable securities                                  | (1,548)   | 1,314             | (234)           |  |  |
| Interest bearing deposits in other banks            | 2,461   | 86                | 2,547           |  |  |
| Total interest income                               | <u>6,842</u>  | <u>7,385</u>      | <u>14,227</u>   |  |  |
| <b>Interest expense:</b>                            |   |                   |                 |  |  |
| Interest-bearing transaction accounts               | (19)  | 1,390             | 1,371           |  |  |
| Money market accounts                               | 1,233   | 2,670             | 3,903           |  |  |
| Savings deposits                                    | (39)  | 187               | 148             |  |  |
| Time deposits                                       | 3,464   | 4,162             | 7,626           |  |  |
| Federal funds purchased                             | (26)  | (27)              | (53)            |  |  |
| Securities sold under agreements to repurchase      | (19)  | 465               | 446             |  |  |
| FHLB advances                                       | (934)   | 80                | (854)           |  |  |
| Other long-term debt                                | —   | 54                | 54              |  |  |
| Total interest expense                              | <u>3,660</u>  | <u>8,981</u>      | <u>12,641</u>   |  |  |
| Total net interest income                           | <u>\$ 3,182</u>   | <u>\$ (1,596)</u> | <u>\$ 1,586</u> |  |  |

(1) The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

#### Non-interest Income and Non-interest Expense

Non-interest income during the nine months ended September 30, 2024 increased \$2.9 million to \$10.4 million from \$7.5 million during the same period in 2023. The increase in non-interest income was primarily related to increases in deposit service charges, mortgage banking income, investment advisory fees and non-deposit commissions, and other non-interest income and a decline in loss on sale of other securities, partially offset by a decrease in gain on sale of other assets.

Deposit service charges increased \$30,000 to \$722,000 during the nine months ended September 30, 2024 from \$692,000 during the same period in 2023 due to higher service charges and non-sufficient funds and overdraft fees.

Mortgage banking income increased by \$619,000 to \$1.7 million during the nine months ended September 30, 2024 from \$1.0 million during the same period in 2023. Secondary mortgage production during the nine months ended September 30, 2024 was \$55.3 million compared to \$35.5 million during the same period in 2023 while the gain on sale margin increased to 2.97% during the nine months ended September 30, 2024 from 2.92% during the same period in 2023.

With the headwinds of rising interest rates, we began to market an adjustable rate mortgage (ARM) product during the second quarter of 2022 to provide borrowers with an alternative to fixed-rate mortgages and to help offset anticipated mortgage production challenges. Currently, we are offering 5/6, 7/6, and 10/6 ARM loans that are originated for our loans held-for-investment portfolio. Furthermore, we added a new construction residential real estate team and product during the latter part of 2022. As these ARM and new construction residential real estate loans are being held on our balance sheet as loans held-for-investment, the result is additive to loan growth and interest income but results in less gain on sale fee income, which is reported in noninterest income as mortgage banking income.

Investment advisory fees increased \$1.1 million to \$4.5 million during the nine months ended September 30, 2024 from \$3.3 million during the same period in 2023. Total assets under management increased to \$901.6 million at September 30, 2024 compared to \$755.4 million at December 31, 2023 and \$674.5 million at September 30, 2023. Our net new assets were \$29.4 million during the nine months ended September 30, 2024. Furthermore, our investment performance for the nine-month period from December 31, 2023 to September 30, 2024 was 15.5% compared to 20.8% for the S&P 500; and our investment performance for the 12-month period from September 30, 2023 to September 30, 2024 was 29.2% compared to 34.4% for the S&P 500. Our customers' assets under management are not fully invested in only equities. Our assets under management include bonds and cash. We continue to focus on both the mortgage banking income as well as the investment advisory fees and commissions.

Loss on sale of securities improved by \$1.2 million to zero during the nine months ended September 30, 2024 compared to a loss of \$1.2 million during the same period in 2023. The \$1.2 million loss on sale of securities during the three months ended September 30, 2023 was related to the previously mentioned \$39.9 million sale of book value U.S. Treasuries in our available-for-sale investment securities portfolio.

Gain (loss) on sale of other assets declined \$146,000 to a gain of \$5,000 during the nine months ended September 30, 2024 from \$151,000 during the same period in 2023 due an income tax recovery in 2024 on a previously sold other real estate owned property and due to a sale of other real estate owned during the nine months ended September 30, 2023.

Other non-interest income increased \$28,000 to \$3.5 million during the nine months ended September 30, 2024 from \$3.5 million during the same period in 2023. The \$28,000 increase in other non-interest income was due to an increase in recurring bank owned life insurance of \$43,000 partially offset by declines in ATM debit card income of \$42,000 and other non-recurring noninterest income of \$26,000. Other noninterest income non-recurring income declined \$26,000 to \$95,000 during the nine months ended September 30, 2024 from \$121,000 during the same period in 2023. Non-recurring income of \$95,000 during the nine months ended September 30, 2024 is related to a gain on insurance proceeds of \$101,000 partially offset by a loss on disposition of assets on the closing of our downtown Augusta, Georgia banking office of \$6,000. Non-recurring income of \$121,000 during the nine months ended September 30, 2023 is related to a bank owned life insurance claim of \$93,000 and gains on insurance proceeds of \$28,000.

The following table shows the components of non-interest income for the nine-month periods ended September 30, 2024 and September 30, 2023.

| (Dollars in thousands)                               | Nine months ended<br>September 30, |                 |
|--|------------------------------------|-----------------|
|  | 2024                               | 2023            |
| Deposit service charges                              | \$ 722                             | \$ 692          |
| Mortgage banking income                              | 1,659                              | 1,040           |
| Investment advisory fees and non-deposit commissions | 4,461                              | 3,335           |
| Loss on sale of securities                           | —                                  | (1,249)         |
| Gain on sale of other assets                         | 5                                  | 151             |
| ATM debit card income                                | 2,060                              | 2,102           |
| Bank owned life insurance                            | 595                                | 645             |
| Rental income  | 288                                | 278             |
| Other service fees including safe deposit box fees   | 170                                | 173             |
| Wire transfer fees                                   | 91                                 | 90              |
| Other  | 345                                | 233             |
| <b>Total</b>   | <b>\$ 10,396</b>                   | <b>\$ 7,490</b> |

Non-interest expense increased \$3.2 million during the nine months ended September 30, 2024 to \$35.6 million compared to \$32.5 million during the same period in 2023. The increase in non-interest expense is primarily due to increases in salaries and employee benefits, FDIC insurance assessments, other real estate expense, and other expense partially offset by decreases in occupancy fees, equipment expense, and marketing and public relations expense.

- Salary and benefits expense increased \$2.4 million to \$21.8 million during the nine months ended September 30, 2024 from \$19.5 million during the same period in 2023. This increase is primarily a result of normal salary adjustments, higher mortgage banking and financial planning and investment advisory commissions, and higher incentive accruals related to higher performance. We had 260 full-time employees and nine part-time employees at September 30, 2024 compared to 253 full-time employees and 12 part-time employees at September 30, 2023.
- FDIC assessments increased \$256,000 to \$870,000 during the nine months ended September 30, 2024 compared to \$614,000 during the same period in 2023 due to an increase in our FDIC assessment rate and our assets.
- Other real estate expenses increased \$255,000 to \$113,000 during the nine months ended September 30, 2024 from \$142,000 in contra expenses or credits during the same period in the prior year primarily due to a reversal in accruals for real estate taxes on a non-accrual loan in the prior year period, which were either paid by the borrower or recovered as a result of the sale of the real estate; and due to a \$78,000 write-down of an other real estate owned property during the nine months ended September 30, 2024.

- Other non-interest expense increased \$503,000 to \$8.1 million during the nine months ended September 30, 2024 from \$7.5 million during the same period in 2023.
  - Core banking and electronic processing and services increased \$120,000 to \$2.0 million from \$1.9 million as a result of higher customer activity and enhanced technology.
  - ATM/debit card processing increased \$144,000 to \$932,000 from \$788,000 primarily due to higher customer activity, a debit card marketing campaign, and enhanced technology.
  - Software subscriptions and services increased \$173,000 to \$913,000 from \$740,000 primarily due to new subscriptions and services and higher renewal prices.
  - Telephone expense increased \$83,000 to \$408,000 from \$325,000 due to a change in our telecommunications vendor, which resulted in paying two vendors for a period of time, and due to a \$29,000 write-off of the remainder of a contract related to the closing of our downtown Augusta, Georgia banking office.
  - Debit and fraud losses declined \$231,000 to \$149,000 from \$380,000 due to the previously mentioned spike in mail check fraud losses during the third quarter of 2023.
  - Loan processing and closing costs declined \$99,000 to \$182,000 from \$281,000 primarily due to lower average new loan sizes in 2024 and fees paid for a home equity campaign in 2023.
  - Legal and professional fees increased \$242,000 to \$981,000 from \$739,000 due to higher legal and audit expenses.
  - Shareholder expense increased \$57,000 to \$207,000 from \$150,000 due to higher printing and filing expenses.
- Occupancy fees declined \$98,000 to \$2.3 million during the nine months ended September 30, 2024 from \$2.4 million during the same period in 2023 primarily due to lower building and yard maintenance costs, real estate taxes, and lease expense.
- Equipment expense declined \$91,000 to \$1.0 million during the nine months ended September 30, 2024 from \$1.1 million during the same period in 2023 primarily due to lower equipment depreciation, equipment maintenance and repairs, and auto expense.
- Marketing and public relations declined \$24,000 to \$1.3 million during the nine months ended September 30, 2024 from \$1.3 million during the same period in 2023 primarily due to the timing of planned media production and campaigns. Marketing expenses, while planned and budgeted on an annual basis, can vary significantly between quarters depending on the needs of the company.

The following table shows the components of non-interest expense for the nine months ended September 30, 2024 and September 30, 2023.

| (Dollars in thousands)                              | Nine months ended<br>September 30, |                  |
|---|------------------------------------|------------------|
|   | 2024                               | 2023             |
| Salaries and employee benefits                      | \$ 21,826                          | \$ 19,452        |
| Occupancy   | 2,321                              | 2,419            |
| Equipment   | 1,038                              | 1,129            |
| Marketing and public relations                      | 1,301                              | 1,325            |
| FDIC insurance assessments                          | 870                                | 614              |
| Other real estate expense                           | 113                                | (142)            |
| Amortization of intangibles                         | 118                                | 118              |
| Core banking and electronic processing and services | 2,020                              | 1,900            |
| ATM/debit card processing                           | 932                                | 788              |
| Software subscriptions and services                 | 913                                | 740              |
| Supplies  | 117                                | 98               |
| Telephone   | 408                                | 325              |
| Courier   | 231                                | 205              |
| Correspondent services                              | 238                                | 272              |
| Insurance   | 293                                | 283              |
| Debit card and fraud losses                         | 149                                | 380              |
| Investment advisory services                        | 264                                | 243              |
| Loan processing and closing costs                   | 182                                | 281              |
| Director fees                                       | 448                                | 442              |
| Legal and professional fees                         | 981                                | 739              |
| Shareholder expense                                 | 207                                | 150              |
| Other   | 669                                | 703              |
| <b>Total</b>  | <b>\$ 35,639</b>                   | <b>\$ 32,464</b> |

## Income Tax Expense

We incurred income tax expense of \$2.7 million and \$2.3 million for the nine months ended September 30, 2024 and 2023, respectively. Our effective tax rate was 21.42% and 21.55% for the nine months ended September 30, 2024 and 2023, respectively. The decrease in the effective tax rate was primarily due to a \$149,000 non-recurring reduction to income tax expense during the nine months ended September 30, 2024.

## Provision and Allowance for Credit Losses

On January 1, 2023, we adopted CECL, which resulted in a day one reduction of \$14,000 to the allowance for credit losses on loans offset by increases of \$398,000 to the allowance for credit losses on unfunded commitments and \$43,500 to the allowance for credit losses on held-to-maturity investments. Furthermore, deferred tax assets increased \$90,000 and retained earnings declined \$337,000. Compared to the day one CECL results, the allowance for credit losses on loans increased \$945,000 to \$12.3 million at December 31, 2023 from \$11.3 million at January 1, 2023; the allowance for credit losses on unfunded commitments increased \$199,000 to \$597,000 as of December 31, 2023 from \$398,000 as of January 1, 2023; and the allowance for credit losses on held-to-maturity investments declined \$14,000 to \$30,000 at December 31, 2023 from \$43,500 at January 1, 2023. Compared to December 31, 2023, the allowance for credit losses on loans increased \$666,000 to \$12.9 million at September 30, 2024 from \$12.3 million at December 31, 2023; the allowance for credit losses on unfunded commitments declined \$188,000 to \$409,000 as of September 30, 2024 from \$597,000 as of December 31, 2023; and the allowance for credit losses on held-to-maturity investments declined \$6,000 to \$24,000 at September 30, 2024 from \$30,000 at December 31, 2023. As of September 30, 2024, the combined allowance for credit losses for loans, unfunded commitments, and investments was \$13.4 million compared to \$12.9 million at December 31, 2023 and \$12.5 million at September 30, 2023.

The \$567,000 provision for credit losses during the nine months ended September 30, 2024 is primarily related to a \$62.6 million increase in loans held-for-investment, a slight extension in the average life of the loan portfolio due to lower loan prepayments, and \$95,000 in net charge-offs partially offset by 2.0 basis points of reduction in our qualitative factors primarily related to our reasonable and supportable forecast alternative scenarios qualitative factor and a \$48.3 million reduction in our unfunded commitments net of unconditionally cancellable commitments. The \$730,000 provision for credit losses during the nine months ended September 30, 2023 is primarily related to a \$110.8 million increase in loans held-for-investment, a \$60.2 million increase in unfunded commitments net of unconditionally cancellable commitments, and an increase in our changes in staff, markets, and product qualitative factor related to our new residential construction mortgage team and product partially offset by a reduction in our qualitative factors for changes in staff, markets, and products due to the seasoning of our Rock Hill, South Carolina team and market, which was added in the first quarter of 2022, and a reduction in our qualitative factors due to a \$4.8 million reduction in non-accrual loans.

The allowance for credit losses on loans as a percentage of total loans held-for-investment was 1.08% at September 30, 2024, 1.08% at December 31, 2023, and 1.08% at September 30, 2023.

The total ACL is composed of three parts: the ACL for loans, the ACL for unfunded commitments, and the ACL for HTM investments. The ACL for loans is further composed of the allowance for individually assessed loans, the allowance for collectively assessed expected losses, the allowance for collectively assessed qualitative adjustments, and the allowance for collectively assessed additional allowance. The allowance for collectively assessed qualitative adjustments is calculated using a set of qualitative factors, which at September 30, 2024 and December 31, 2023 included the following factors:

| Qualitative Factors<br>(in basis points)                                    | September 30,<br>2024 | December 31,<br>2023 |
|---|-----------------------|----------------------|
| Changes in lending policies and procedures                                  | 3                     | 3                    |
| Changes in staff, markets, and products                                     | 5                     | 5                    |
| Change in total of 30-89 days past due and other loans especially mentioned | 1                     | 1                    |
| Changes in the loan review system   | 2                     | 2                    |
| Change in collateral value for non-collateral dependent loans               | 9                     | 9                    |
| Changes in concentration of credits   | 11                    | 11                   |
| Changes in the legal or regulatory requirements and competition             | 10                    | 10                   |
| Data limitations  | 10                    | 10                   |
| Model imprecision   | 14                    | 14                   |
| Reasonable and supportable forecast alternative scenarios                   | 15                    | 17                   |
| Total Basis Points  | <u>80</u>             | <u>82</u>            |

We have a significant portion of our loan portfolio with real estate as the underlying collateral. As of September 30, 2024 and December 31, 2023, approximately 91.5% and 91.7%, respectively, of the loan portfolio had real estate collateral. When loans, whether commercial or personal, are granted, they are based on the borrower's ability to generate repayment cash flows from income sources sufficient to service the debt. Real estate is generally taken to reinforce the likelihood of the ultimate repayment and as a secondary source of repayment. We work closely with all our borrowers that experience cash flow or other economic problems, and we believe that we have the appropriate processes in place to monitor and identify problem credits. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for credit losses as estimated at any point in time or that provisions for credit losses will not be significant to a particular accounting period. The allowance is also subject to examination and testing for adequacy by regulatory agencies, which may consider such factors as the methodology used to determine adequacy and the size of the allowance relative to that of peer institutions. Such regulatory agencies could require us to adjust our allowance based on information available to them at the time of their examination.

The non-performing asset ratio was 0.04% of total assets with the nominal level of \$874,000 in non-performing assets at September 30, 2024 compared to 0.05% and \$864,000 at December 31, 2023. Non-accrual loans increased to \$119,000 at September 30, 2024 from \$27,000 at December 31, 2023. We had one accruing loan past due 90 days or more at \$211,000 at September 30, 2024 compared to \$215,000 at December 31, 2023. Loans past due 30 days or more represented 0.11% of the loan portfolio at September 30, 2024 compared to 0.06% at December 31, 2023. The ratio of classified loans plus OREO and repossessed assets declined to 1.15% of total bank regulatory risk-based capital at September 30, 2024 from 1.25% at December 31, 2023. During the nine months ended September 30, 2024, we experienced net loan charge offs of \$43,000 (charge-offs of \$85,000 less recoveries of \$42,000) and net overdraft charge-offs of \$52,000 (charge-offs of \$64,000 and recoveries of \$12,000). In comparison, we experienced net loan recoveries of \$40,000 and net overdraft charge-offs of \$35,000 during the nine months ended September 30, 2023.

There were three loans totaling \$331,000 (0.03% of total loans) included on non-performing status (non-accrual loans and loans past due 90 days and still accruing) at September 30, 2024. Two of these loans were on non-accrual status. The largest loan of the two is \$117,000 and is secured by real estate. The balance of the remaining loan on non-accrual status is \$2,000. This loan is secured by a second mortgage lien. We had one loan that was accruing loans past due 90 days or more at September 30, 2024. At both September 30, 2024 and December 31, 2023, we considered loan relationships exceeding \$500,000 and on non-accrual status as individually assessed loans for the allowance for credit losses. At both September 30, 2024 and December 31, 2023, we had no individually assessed loans. The specific allowance for individually assessed loans is based on the fair value of collateral method or present value of expected cash flows method. For collateral dependent loans, the fair value of collateral method is used and the fair value is determined by an independent appraisal less estimated selling costs. There was no specific allowance for credit losses on our individually assessed loans at September 30, 2024 and December 31, 2023. At September 30, 2024, we had \$1.1 million in loans that were delinquent 30 days to 89 days representing 0.09% of total loans compared to \$498,000 or 0.04% of total loans at December 31, 2023.

The following table summarizes the activity related to our allowance for credit losses for the periods indicated:

Allowance for Credit Losses - Loans

|   | Nine Months Ended<br>September 30, |                     |
|---|------------------------------------|---------------------|
|   | 2024                               | 2023                |
| <i>(Dollars in thousands)</i>                                   |                                    |                     |
| Average loans outstanding (excluding loans held-for-sale)       | \$ 1,171,696                       | \$ 1,060,566        |
| Loans outstanding at period end (excluding loans held-for-sale) | <u>\$ 1,196,659</u>                | <u>\$ 1,091,645</u> |
| Non-performing assets:  |                                    |                     |
| Non-accrual loans   | \$ 119                             | \$ 61               |
| Loans 90 days past due still accruing                           | 211                                | 3                   |
| Foreclosed real estate  | 544                                | 666                 |
| Total non-performing assets                                     | <u>\$ 874</u>                      | <u>\$ 730</u>       |
| Beginning balance of allowance                                  | \$ 12,267                          | \$ 11,336           |
| Adjustment to allowance for adopting ASU 2016-13                | —                                  | (14)                |
| Loans charged-off:  |                                    |                     |
| Commercial  | 83                                 | 20                  |
| Real Estate Mortgage – Commercial                               | 2                                  | —                   |
| Consumer - Other  | 64                                 | 50                  |
| Total loans charged-off   | <u>149</u>                         | <u>70</u>           |
| Recoveries:   |                                    |                     |
| Commercial  | 5                                  | 4                   |
| Real Estate Mortgage – Residential                              | 19                                 | 4                   |
| Real Estate Mortgage – Commercial                               | 9                                  | 33                  |
| Real Estate – Construction                                      | 2                                  | 2                   |
| Consumer – Home Equity  | 7                                  | 19                  |
| Consumer – Other  | 12                                 | 13                  |
| Total recoveries  | <u>54</u>                          | <u>75</u>           |
| Net loan charge offs  | (95)                               | (5)                 |
| Provision for credit losses                                     | 761                                | 491                 |
| Balance at period end   | <u>\$ 12,933</u>                   | <u>\$ 11,818</u>    |
| Net charge offs to average loans (annualized)                   | 0.01%                              | (0.00)%             |
| Allowance as percent of total loans                             | 1.08%                              | 1.08%               |
| Non-performing assets as % of total assets                      | 0.04%                              | 0.04%               |
| Allowance as % of non-performing loans                          | 3,919.09%                          | 18,465.63%          |
| Non-accrual loans as % of total loans                           | 0.01%                              | 0.01%               |
| Allowance as % of non-accrual loans                             | 10,868.07%                         | 19,373.77%          |

The following table details net charge-offs to average loans outstanding by loan category for the periods indicated.

| (Dollars in thousands) | Nine Months Ended September 30, |                                  |                      |                              |                     |                      |
|------------------------|---------------------------------|----------------------------------|----------------------|------------------------------|---------------------|----------------------|
|                        | 2024                            |                                  |                      | 2023                         |                     |                      |
|                        | Net Charge-Offs (Recoveries)    | Average Loans HFI <sup>(1)</sup> | Net Charge-Off Ratio | Net Charge-Offs (Recoveries) | Average Loans HFI   | Net Charge-Off Ratio |
| Commercial             | \$ 78                           | \$ 81,733                        | 0.09%                | \$ 16                        | \$ 76,999           | 0.02%                |
| Real estate:           |                                 |                                  |                      |                              |                     |                      |
| Construction           | (2)                             | 135,531                          | 0.00%                | (2)                          | 103,604             | 0.00%                |
| Mortgage-residential   | (19)                            | 106,841                          | (0.02)%              | (4)                          | 79,558              | (0.01)%              |
| Mortgage-commercial    | (7)                             | 796,148                          | 0.00%                | (33)                         | 753,827             | 0.00%                |
| Consumer:              |                                 |                                  |                      |                              |                     |                      |
| Home Equity            | (7)                             | 35,615                           | (0.02)%              | (19)                         | 31,437              | (0.06)%              |
| Other                  | 52                              | 15,828                           | 0.33%                | 37                           | 15,141              | 0.24%                |
| Total:                 | <u>\$ 95</u>                    | <u>\$ 1,171,696</u>              | <u>0.01%</u>         | <u>\$ (5)</u>                | <u>\$ 1,060,566</u> | <u>0.00%</u>         |

(1) Average loans exclude loans held for sale

The following allocation of the allowance to specific components is not necessarily indicative of future losses or future allocations. The entire allowance is available to absorb losses in the portfolio.

#### Composition of the Allowance for Credit Losses - Loans

| (Dollars in thousands)     | September 30, 2024 |                            | December 31, 2023 |                            |
|----------------------------|--------------------|----------------------------|-------------------|----------------------------|
|                            | Amount             | % of allowance in Category | Amount            | % of allowance in Category |
| Commercial                 | \$ 1,011           | 7.8%                       | \$ 935            | 7.6%                       |
| Real Estate – Construction | 1,683              | 13.0%                      | 1,337             | 10.9%                      |
| Real Estate Mortgage:      |                    |                            |                   |                            |
| Residential                | 1,526              | 11.8%                      | 1,122             | 9.2%                       |
| Commercial                 | 7,874              | 60.9%                      | 8,146             | 66.4%                      |
| Consumer:                  |                    |                            |                   |                            |
| Home Equity                | 556                | 4.3%                       | 472               | 3.8%                       |
| Other                      | 283                | 2.2%                       | 255               | 2.1%                       |
| Total                      | <u>\$ 12,933</u>   | <u>100.0%</u>              | <u>\$ 12,267</u>  | <u>100.0%</u>              |

Accrual of interest is discontinued on loans when management believes, after considering economic and business conditions and collection efforts that a borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed in non-accrual status when it becomes 90 days or more past due. At the time a loan is placed in non-accrual status, all interest, which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

#### **Financial Position**

Assets increased \$115.9 million, or 6.3% (8.5% annualized), to \$1.9 billion at September 30, 2024 from \$1.8 billion at December 31, 2023. The increase in assets was primarily due to increases in interest-bearing bank balances of \$77.6 million and loans held-for-investment of \$62.6 million, partially offset by decreases in investment securities available-for-sale of \$12.7 million, investment securities held-to-maturity of \$5.0 million, and other assets of \$2.3 million.

## Loans and loans held-for-sale

Loans held-for-sale decreased to \$3.9 million at September 30, 2024 from \$4.4 million at December 31, 2023. Loans (excluding loans held-for-sale) increased \$62.6 million, or 5.5% (7.4% annualized), to \$1.2 billion at September 30, 2024 from \$1.1 billion at December 31, 2023. Total loan production, excluding mortgage secondary market and new construction residential real estate, was \$138.3 million during the nine months ended September 30, 2024 compared to \$147.1 million during the same period in 2023. Advances from unfunded commercial construction loans available for draws were \$71.3 million during the nine months ended September 30, 2024. Payoffs and paydowns totaled \$84.8 million during the nine months ended September 30, 2024 compared to \$58.4 million during the same period in 2023.

Total mortgage production during the nine months ended September 30, 2024 was \$123.7 million, \$55.3 million of the production was originated to be sold in the secondary market, \$32.9 million of the loan production was originated as ARM loans for our loans held-for-investment portfolio, and \$35.5 million of the loan production was commitments for new construction residential real estate loans. Total mortgage production during the nine months ended September 30, 2023 was \$97.1 million, \$35.5 million of the production was originated to be sold in the secondary market, \$22.5 million of the loan production was originated as ARM loans for our loans held-for-investment portfolio, and \$39.1 million of the loan production was commitments for new construction residential real estate loans. As these ARM and new construction residential real estate loans are being held on our balance sheet as loans held-for-investment, the result is additive to loan growth and interest income but results in less gain on sale fee income, which is reported in noninterest income as mortgage banking income. The increase in mortgage production was due to higher secondary market, ARM, and construction residential real estate loan production.

The loan-to-deposit ratio (including loans held-for-sale) at September 30, 2024 and December 31, 2023 was 73.0% and 75.3%, respectively. The loan-to-deposit ratio (excluding loans held-for-sale) at September 30, 2024 and December 31, 2023 was 72.8% and 75.1%, respectively.

One of our goals as a community bank has been, and continues to be, to grow our assets through quality loan growth by providing credit to small and mid-size businesses and individuals within the markets we serve. We remain committed to meeting the credit needs of our local markets. Based on our loan portfolio as of September 30, 2024, the non-owner occupied commercial real estate loans and the construction and land development loans were approximately 304% and 83% of total risk-based capital, respectively. Furthermore, our three-year growth in non-owner occupied commercial real estate loans was 40% from September 30, 2021 to September 30, 2024. We have expertise and a long history in originating and managing commercial real estate loans. We have a strong credit underwriting process, which includes management and board oversight. We perform rigorous monitoring, stress testing, and reporting of these portfolios at the management and board levels, and we continue to monitor the level of the concentration in commercial real estate loans within our loan portfolio monthly.

The following table shows the composition of the loan portfolio by category at the dates indicated:

| (Dollars in thousands)      | September 30, 2024 |         | December 31, 2023 |         |
|-----------------------------|--------------------|---------|-------------------|---------|
|                             | Amount             | Percent | Amount            | Percent |
| Commercial                  | \$ 84,445          | 7.1%    | \$ 78,134         | 6.9%    |
| Real estate:                |                    |         |                   |         |
| Construction                | 149,395            | 12.5%   | 118,225           | 10.4%   |
| Mortgage – residential      | 121,021            | 10.1%   | 94,796            | 8.4%    |
| Mortgage – commercial       | 786,029            | 65.7%   | 791,947           | 69.8%   |
| Consumer:                   |                    |         |                   |         |
| Home Equity                 | 38,697             | 3.2%    | 34,752            | 3.1%    |
| Other                       | 17,072             | 1.4%    | 16,165            | 1.4%    |
| Total gross loans           | 1,196,659          | 100.0%  | 1,134,019         | 100.0%  |
| Allowance for credit losses | (12,933)           |         | (12,267)          |         |
| Total net loans             | \$ 1,183,726       |         | \$ 1,121,752      |         |

In the context of this discussion, a real estate mortgage loan is defined as any loan, other than loans for construction purposes and advances on home equity lines of credit, secured by real estate, regardless of the purpose of the loan. Advances on home equity lines of credit are included in consumer loans. We follow the common practice of financial institutions in our market areas of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan components. We generally limit the loan-to-value ratio to 80%.

As a community bank focused on local businesses, professionals, organizations, and individuals, the Bank has no individual or industry concentrations. In order to provide additional clarity to our commercial real estate exposure, the information below includes only non-owner occupied loans, grouped by collateral type. As of September 30, 2024:

| (In thousands)         | Outstanding | % of Loan Portfolio | Average Loan Size | Weighted Avg LTV of Top 10 Loans |
|------------------------|-------------|---------------------|-------------------|----------------------------------|
| Retail                 | \$ 98,702   | 8.2%                | \$ 1,028          | 55%                              |
| Warehouse & Industrial | \$ 76,999   | 6.4%                | \$ 794            | 60%                              |
| Office                 | \$ 66,966   | 5.6%                | \$ 690            | 58%                              |
| Hotel                  | \$ 59,472   | 5.0%                | \$ 3,498          | 57%                              |

In the office exposure noted above, there are only four loans where the collateral is an office building in excess of 50,000 square feet of rentable space. These four loans represent \$10.7 million in outstanding loans and have a weighted average loan-to-value of 33%.

Below is the comparable detailed information for non-owner occupied loans by collateral type as of December 31, 2023:

| (In thousands)         | Outstanding | % of Loan Portfolio | Average Loan Size | Weighted Avg LTV of Top 10 Loans |
|------------------------|-------------|---------------------|-------------------|----------------------------------|
| Retail                 | \$ 88,938   | 7.8%                | \$ 967            | 57%                              |
| Warehouse & Industrial | \$ 77,760   | 6.9%                | \$ 827            | 60%                              |
| Office                 | \$ 66,187   | 5.8%                | \$ 675            | 62%                              |
| Hotel                  | \$ 64,924   | 5.7%                | \$ 3,607          | 63%                              |

In the office exposure noted above, there are only four loans where the collateral is an office building in excess of 50,000 square feet of rentable space. These four loans represent \$10.4 million in loan outstandings and have a weighted average loan-to-value of 33%.

The repayment of loans in the loan portfolio as they mature is a source of liquidity. The following table sets forth the loans maturing within specified intervals at September 30, 2024.

#### Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

| (In thousands)       | September 30, 2024 |                                  |                                       |                    |                     |
|----------------------|--------------------|----------------------------------|---------------------------------------|--------------------|---------------------|
|                      | One Year or Less   | Over One Year Through Five Years | Over Five Years Through Fifteen years | Over Fifteen Years | Total               |
| Commercial           | \$ 10,326          | \$ 50,077                        | \$ 24,042                             | \$ —               | \$ 84,445           |
| Real estate:         |                    |                                  |                                       |                    |                     |
| Construction         | 39,612             | 78,181                           | 31,602                                | —                  | 149,395             |
| Mortgage—residential | 4,257              | 15,834                           | 2,774                                 | 98,156             | 121,021             |
| Mortgage—commercial  | 77,758             | 505,646                          | 201,338                               | 1,287              | 786,029             |
| Consumer:            |                    |                                  |                                       |                    |                     |
| Home equity          | 1,304              | 6,438                            | 30,955                                | —                  | 38,697              |
| Other                | 896                | 15,071                           | 728                                   | 377                | 17,072              |
| <b>Total</b>         | <b>\$ 134,153</b>  | <b>\$ 671,247</b>                | <b>\$ 291,439</b>                     | <b>\$ 99,820</b>   | <b>\$ 1,196,659</b> |

#### Loans maturing after one year with:

|               |                    |
|---------------|--------------------|
| Variable Rate | \$ 149,730         |
| Fixed Rate    | 912,776            |
|               | <b>\$1,062,506</b> |

The information presented in the above table is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity.

## Investment Securities

Investment securities declined \$19.4 million to \$486.8 million, net of allowance for credit losses on investments of \$24,000, at September 30, 2024 from \$506.2 million, net of allowance for credit losses on investments of \$30,000, at December 31, 2023. The decline was primarily related to normal principal cash flows.

On June 1, 2022, we reclassified \$224.5 million in investments to held-to-maturity (HTM) from available-for-sale (AFS). These securities were transferred at fair value at the time of the transfer, which became the new cost basis for the securities held to maturity. The pretax unrealized net holding loss on the available-for-sale securities on the date of transfer totaled approximately \$16.7 million, and continued to be reported as a component of accumulated other comprehensive loss. This net unrealized loss is being amortized to interest income over the remaining life of the securities as a yield adjustment. There were no gains or losses recognized as a result of this transfer. The remaining pretax unrealized net holding loss on these investments was \$12.7 million (\$10.0 million net of tax) at September 30, 2024. Our HTM investments totaled \$212.2 million and represented approximately 44% of our total investments at September 30, 2024. Our AFS investments totaled \$269.5 million or approximately 55% of our total investments at September 30, 2024. Our investments at cost totaled \$5.1 million or approximately 1% of our total investments at September 30, 2024. The unrealized losses on our investment securities are related to an increase in market interest rates, which has a temporary negative impact on the fair value of our investment securities portfolio and on accumulated other comprehensive income (loss), which is included in shareholders' equity.

At September 30, 2024, the estimated weighted average life of our total investment portfolio was 5.7 years, the modified duration was 4.4, the effective duration was 3.4, and the weighted average tax equivalent book yield was 3.70%.

Other short-term investments increased \$77.6 million to \$144.4 million at September 30, 2024 from \$66.8 million at December 31, 2023 due to our decision to temporarily hold excess liquidity in interest-bearing bank deposits at the Federal Reserve Bank. This additional liquidity will be used to fund loan growth and or reduce borrowings and brokered certificates of deposit.

The following table shows, at amortized cost, the expected maturities and weighted average yield, which is calculated using amortized cost as the weight and tax-equivalent book yield, of securities held at September 30, 2024:

| (Dollars in thousands)                         | Within One Year |              | Over One Year and less than Five |              | Over Five Years and less than Ten |              | Over Ten years    |              |
|--|-----------------|--------------|----------------------------------|--------------|-----------------------------------|--------------|-------------------|--------------|
|  | Amount          | Yield        | Amount                           | Yield        | Amount                            | Yield        | Amount            | Yield        |
| Available-for-Sale:                            |                 |              |                                  |              |                                   |              |                   |              |
| US Treasury Securities                         | \$ —            | —            | \$ 996                           | 0.74%        | 14,818                            | 1.24%        | \$ —              | —            |
| Government sponsored enterprises               | —               | —            | —                                | —            | 2,500                             | 2.00%        | —                 | —            |
| Small Business Administration pools            | 244             | 2.82%        | 2,241                            | 6.47%        | 5,501                             | 4.55%        | 5,213             | 5.65%        |
| Mortgage-backed securities                     | —               | —            | 7,278                            | 5.21%        | 3,919                             | 2.21%        | 234,778           | 5.92%        |
| Corporate and other securities                 | —               | —            | 1,990                            | 7.81%        | 6,754                             | 3.76%        | 14                | —            |
| Total investment securities available-for-sale | <u>\$ 244</u>   | <u>2.82%</u> | <u>\$ 12,505</u>                 | <u>5.49%</u> | <u>\$ 33,492</u>                  | <u>2.46%</u> | <u>\$ 240,005</u> | <u>5.91%</u> |
|  |                 |              |                                  |              |                                   |              |                   |              |
| (Dollars in thousands)                         | Within One Year |              | After One But Within Five Years  |              | After Five But Within Ten Years   |              | After Ten Years   |              |
|  | Amount          | Yield        | Amount                           | Yield        | Amount                            | Yield        | Amount            | Yield        |
| Held-to-Maturity:                              |                 |              |                                  |              |                                   |              |                   |              |
| Mortgage-backed securities                     | 4,365           | 2.91%        | 35,859                           | 3.23%        | 16,250                            | 3.41%        | 51,619            | 4.04%        |
| State and local government                     | 300             | 4.00%        | 20,747                           | 3.45%        | 44,096                            | 3.37%        | 39,006            | 3.36%        |
| Total investment securities held-to-maturity   | <u>\$ 4,665</u> | <u>2.98%</u> | <u>\$ 56,606</u>                 | <u>3.31%</u> | <u>\$ 60,346</u>                  | <u>3.38%</u> | <u>\$ 90,625</u>  | <u>3.75%</u> |

## Deposits

Deposits increased \$133.1 million, or 8.8% (11.8% annualized), to \$1.6 billion at September 30, 2024 compared to \$1.5 billion at December 31, 2023. Our pure deposits, which are defined as total deposits less certificates of deposits, increased \$64.5 million, or 5.0% (6.7% annualized), to \$1.3 billion at September 30, 2024 from \$1.3 billion at December 31, 2023. We continue to focus on growing our pure deposits in order to better manage our overall cost of funds. Certificates of deposits increased \$68.6 million to \$294.4 million at September 30, 2024 from \$225.8 million at December 31, 2023.

We began issuing brokered certificates of deposit during the third quarter of 2023 to supplement our funding mix. As of September 30, 2024, we had \$22.4 million in brokered certificates of deposit ranging in initial terms from 18 months to three years, with the three year term callable after six months. We had \$48.1 million and \$48.1 million in brokered certificates of deposit at December 31, 2023 and at September 30, 2023, respectively.

Total uninsured deposits were \$492.5 million and \$436.6 million at September 30, 2024 and December 31, 2023, respectively. Included in uninsured deposits at September 30, 2024 and December 31, 2023 were \$97.9 million and \$82.8 million of deposits of states or political subdivisions in the U.S., which are secured or collateralized, respectively. Total uninsured deposits, excluding these deposits that are secured or collateralized, totaled \$404.3 million, or 24.6%, of total deposits at September 30, 2024 and \$353.8 million, or 23.4%, of total deposits at December 31, 2023. The average balance of all customer deposit accounts at September 30, 2024 was \$24,281. The average balance for consumer accounts was \$13,152 and the average balance for non-consumer accounts was \$52,782.

The following table sets forth the deposits by category:

| (Dollars in thousands)                        | September 30,<br>2024 |                  | December 31,<br>2023 |                  |
|---|-----------------------|------------------|----------------------|------------------|
|   | Amount                | % of<br>Deposits | Amount               | % of<br>Deposits |
| Demand deposit accounts                       | \$ 441,386            | 26.8%            | \$ 432,333           | 28.6%            |
| Interest bearing checking accounts            | 342,014               | 20.8%            | 302,935              | 20.0%            |
| Money market accounts                         | 429,305               | 26.1%            | 404,499              | 26.8%            |
| Savings accounts                              | 108,641               | 6.6%             | 118,623              | 7.9%             |
| Time deposits less than or equal to \$250,000 | 244,266               | 14.9%            | 207,233              | 13.7%            |
| Time deposits greater than \$250,000          | 78,452                | 4.8%             | 45,378               | 3.0%             |
| <b>Total</b>                                  | <b>\$ 1,644,064</b>   | <b>100.0%</b>    | <b>\$ 1,511,001</b>  | <b>100.0%</b>    |

The uninsured amount of time deposits in the table above at September 30, 2024 and December 31, 2023 was \$35.2 million and \$17.1 million, respectively.

### Maturities of Certificates of Deposit and Other Time Deposit with balances greater than \$250,000

The tables below show at September 30, 2024 and December 31, 2023, maturities of certificates and other time deposits greater than \$250,000.

| (Dollars in thousands)                                | September 30, 2024     |                                       |                                       |                           | Total     |
|---|------------------------|---------------------------------------|---------------------------------------|---------------------------|-----------|
|   | Within Three<br>Months | After Three<br>Through<br>Nine Months | After Six<br>Through<br>Twelve Months | After<br>Twelve<br>Months |           |
|   | \$ 34,702              | \$ 27,795                             | \$ 14,146                             | \$ 1,809                  |           |
| Certificates and time deposits greater than \$250,000 | \$ 34,702              | \$ 27,795                             | \$ 14,146                             | \$ 1,809                  | \$ 78,452 |

  

| (Dollars in thousands)                                | December 31, 2023      |                                       |                                       |                           | Total     |
|---|------------------------|---------------------------------------|---------------------------------------|---------------------------|-----------|
|   | Within Three<br>Months | After Three<br>Through<br>Nine Months | After Six<br>Through<br>Twelve Months | After<br>Twelve<br>Months |           |
|   | \$ 17,857              | \$ 10,210                             | \$ 16,149                             | \$ 1,162                  |           |
| Certificates and time deposits greater than \$250,000 | \$ 17,857              | \$ 10,210                             | \$ 16,149                             | \$ 1,162                  | \$ 45,378 |

**Borrowed funds.** Borrowed funds consist of fed funds purchased, securities sold under agreements to repurchase, FHLB advances and long-term debt. Our long-term debt is a result of issuing \$15.0 million in trust preferred securities. Short-term borrowings in the form of securities sold under agreements to repurchase averaged \$69.1 million, \$70.0 million, and \$71.5 million during the three months ended September 30, 2024, December 31, 2023, and September 30, 2023, respectively. The average rates paid during these periods were 2.91%, 2.79%, and 2.48%, respectively. The balances of securities sold under agreements to repurchase were \$66.9 million, \$62.9 million, and \$67.2 million at September 30, 2024, December 31, 2023, and September 30, 2023, respectively. The repurchase agreements all mature within one to four days and are generally originated with customers that have other relationships with us and tend to provide a stable and predictable source of funding. Federal funds purchased averaged \$40,000, zero, and \$1.6 million during the three months ended September 30, 2024, December 31, 2023, and September 30, 2023, respectively. The average rates paid during these periods were 0.00%, 0.00%, and 5.00%, respectively. Federal funds purchased were \$3.7 million, zero, and zero at September 30, 2024, December 31, 2023, and September 30, 2023, respectively. As a member of the FHLB, the Bank has access to advances from the FHLB for various terms and amounts. FHLB advances averaged \$50.0 million, \$84.0 million, and \$83.3 million during the three months ended September 30, 2024, December 31, 2023, and September 30, 2023, respectively. The average rates paid during these periods were 5.14%, 5.07%, and 5.14%, respectively. The balances of FHLB advances were \$50.0 million, \$90.0 million, and \$80.0 million at September 30, 2024, December 31, 2023, and September 30, 2023, respectively.

The \$50.0 million in FHLB advances at September 30, 2024 had maturity dates between December 9, 2024, and November 3, 2026 with interest rates between 4.81% and 5.26%.

We issued \$15.5 million in trust preferred securities on September 16, 2004. During the fourth quarter of 2015, we redeemed \$500,000 of these securities. Until the cessation of LIBOR on September 30, 2023, the securities accrued and paid distributions quarterly at a rate of three month LIBOR plus 257 basis points, thereafter, such distributions to be paid quarterly transitioned to an adjusted Secured Overnight Financing Rate (SOFR) index in accordance with the Federal Reserve's final rule implementing the Adjustable Interest Rate Act. The remaining debt may be redeemed in full anytime with notice and matures on September 16, 2034. Trust preferred securities averaged \$15.0 million during the three months ended September 30, 2024, December 31, 2023, and September 30, 2023. The average rates during these periods were 8.24%, 8.33%, and 8.19%, respectively. The balances of trust preferred securities were \$15.0 million as of September 30, 2024, December 31, 2023, and September 30, 2023.

Total shareholders' equity increased \$12.3 million, or 9.3%, to \$143.3 million at September 30, 2024 from \$131.1 million at December 31, 2023. Shareholders' equity was 7.4% of total assets at September 30, 2024 and 7.2% at December 31, 2023. The \$12.3 million increase in shareholders' equity was due to a \$6.5 million increase in retention of earnings resulting from \$9.7 million in net income less \$3.3 million in dividends, a \$521,000 increase due to employee and director stock awards, a \$313,000 increase due to dividend reinvestment plan (DRIP) purchases, and a \$5.0 million improvement in accumulated other comprehensive loss. The improvement in other accumulated other comprehensive loss for the period was due to improvements in the accumulated other comprehensive loss on available-for-sale securities, net of tax expense, of \$3.9 million and the reclassification adjustment for amortization of unrealized losses on securities transferred from available-for-sale to held-to-maturity, net of tax expense, of \$1.0 million.

On April 20, 2022, we announced that our board of directors approved the repurchase of up to 375,000 shares of our common stock (the "2022 Repurchase Plan"), which represented approximately 5% of our shares outstanding at the time of the announcement. No repurchases were made under the 2022 Repurchase Plan prior to its expiration at the market close on December 31, 2023.

On May 14, 2024, we announced that our Board of Directors approved a plan to utilize up to \$7.1 million of capital to repurchase shares of our common stock (the "2024 Repurchase Plan"), which represented approximately 5.3% of total shareholders' equity at the time of the announcement. No repurchases have been made under the 2024 Repurchase Plan. The 2024 Repurchase Plan expires at the market close on May 13, 2025.

## Market Risk Management

Market risk reflects the risk of economic loss resulting from adverse changes in market prices and interest rates. The risk of loss can be measured in either diminished current market values or reduced current and potential net income. Our primary market risk is interest rate risk. We have established an Asset/Liability Committee of the board of directors (the "ALCO"), which has members from our board of directors and management to monitor and manage interest rate risk. Our ALCO

- monitors our compliance with regulatory guidance in the formulation and implementation of our interest rate risk program;
- reviews the results of our interest rate risk modeling quarterly to assess whether we have appropriately measured our interest rate risk, mitigated our exposures appropriately and confirmed that any residual risk is acceptable;
- monitors and manages the pricing and maturity of our assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on our net interest income; and
- has established policies, policy guidelines, and strategies with respect to interest rate risk exposure and liquidity.

Further, our ALCO and board of directors explicitly review our ALCO policies at least annually and review our ALCO assumptions and policy limits quarterly.

We employ a monitoring technique to measure our interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Simulation modeling is performed to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. We model the impact on net interest income for several different changes in the yield curve. We model the impact on net interest income in an increasing and decreasing rate environment of 100, 200, 300, and 400 basis points. We also periodically stress certain assumptions such as loan prepayment rates, deposit decay rates and interest rate betas to evaluate our overall sensitivity to changes in interest rates. Policies have been established in an effort to maintain the maximum anticipated negative impact of these modeled changes in net interest income at no more than 10%, 15%, 20%, and 20%, respectively, in a 100, 200, 300, and 400 basis point change in interest rates over the first 12-month period subsequent to interest rate changes. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, by adjusting the interest rate during the life of an asset or liability, or by the use of derivatives such as interest rate swaps and other hedging instruments. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. Neither the "gap" analysis or asset/liability modeling are precise indicators of our interest sensitivity position due to the many factors that affect net interest income including, the timing, magnitude, and frequency of interest rate changes as well as changes in the volume and mix of earning assets and interest-bearing liabilities.

Based on the many factors and assumptions used in simulating the effect of changes in interest rates, the following table estimates the hypothetical percentage change in net interest income at September 30, 2024 and at December 31, 2023 over the subsequent 12 months. We were liability sensitive at September 30, 2024 and primarily liability sensitive at December 31, 2023. In 2023, we increased our non-maturity deposit interest rate betas in increasing rate environments, which increased our liability sensitivity. This was partially offset by the previously mentioned \$150.0 million Pay-Fixed Swap Agreement that we entered into effective May 5, 2023. Furthermore, we reduced the average life on our non-maturity deposits at June 30, 2024. As a result, our modeling, at September 30, 2024, reflects a decrease in net interest income in a rising interest rate environment during the first 12-month period subsequent to interest rate changes. The negative impact of rising rates on net interest income is slightly more liability sensitive during the second 12-month period subsequent to interest rate changes. In a declining interest rate environment, the model reflects increases in net interest income during both the first 12-month period and the second 12-month period subsequent to interest rate changes. The increase and decrease of 100, 200, 300, and 400 basis points, respectively, reflected in the table below assume a simultaneous and parallel change in interest rates along the entire yield curve. As a result, our modeling, at December 31, 2023, reflects a decrease in net interest income in a rising interest rate environment during the first 12-month period subsequent to interest rate changes. The negative impact of rising rates on net interest income is slightly less liability sensitive during the second 12-month period subsequent to interest rate changes. In a declining interest rate environment, the model reflects increases in net interest income in the down 100 basis point and down 200 basis point scenarios and declines in net interest income in the down 300 basis point and 400 basis point scenarios during the first 12-month period subsequent to interest rate changes. The positive impact in the down 100 and down 200 basis point scenarios of declining rates changes to a fairly neutral impact on net interest income during the second 12-month period subsequent to interest rate changes. The increase and decrease of 100, 200, 300, and 400 basis points, respectively, reflected in the table below assume a simultaneous and parallel change in interest rates along the entire yield curve.

*Net Interest Income Sensitivity*

| Change in short-term interest rates | Hypothetical percentage change in net interest income |                   |
|-------------------------------------|---|-------------------|
|                                     | September 30, 2024                                    | December 31, 2023 |
| +400bp                              | -12.71%   | -12.24%           |
| +300bp                              | -8.87%  | -8.92%            |
| +200bp                              | -5.09%  | -5.62%            |
| +100bp                              | -2.08%  | -2.47%            |
| Flat                                | —   | —                 |
| -100bp                              | +1.82%  | +0.94%            |
| -200bp                              | +3.18%  | +1.18%            |
| -300bp                              | +2.96%  | -1.11%            |
| -400bp                              | +1.61%  | -1.50%            |

During the second 12-month period after 100 basis point, 200 basis point, 300 basis point, and 400 basis point simultaneous and parallel increases in interest rates along the entire yield curve, our net interest income is projected to decline 2.24%, 5.46%, 9.49%, and 13.65%, respectively, at September 30, 2024, and 1.94%, 4.67%, 7.63%, and 10.68%, respectively, at December 31, 2023. During the second 12-month period after 100 basis point, 200 basis point, 300 basis point, and 400 basis point simultaneous and parallel reduction in interest rates along the entire yield curve, our net interest income is projected to increase 1.88%, 3.04%, 2.24%, and 0.39%, respectively, at September 30, 2024, and to increase 0.51% and decline 0.03%, 3.19%, and 4.41%, respectively, at December 31, 2023.

We perform a valuation analysis projecting future cash flows from assets and liabilities to determine the Present Value of Equity ("PVE") over a range of changes in market interest rates. The sensitivity of PVE to changes in interest rates is a measure of the sensitivity of earnings over a longer time horizon. Policies have been established in an effort to maintain the maximum anticipated negative impact of these modeled changes in PVE at no more than 15%, 20%, 25%, and 25%, respectively, in a 100, 200, 300, and 400 basis point change in market interest rates. Our PVE declines in all of the down interest rate scenarios and the up 400 basis point scenarios at September 30, 2024. However, our PVE increases slightly in the up 100, up 200, and up 300 basis point scenarios at September 30, 2024. Based on PVE, we were primarily asset sensitive at December 31, 2023.

*Present Value of Equity Sensitivity*

| Change in present value of equity | Hypothetical percentage change in PVE |                   |
|-----------------------------------|---------------------------------------|-------------------|
|                                   | September 30, 2024                    | December 31, 2023 |
| +400bp                            | -1.69%                                | -1.49%            |
| +300bp                            | +0.50%                                | +0.44%            |
| +200bp                            | +1.86%                                | +1.54%            |
| +100bp                            | +2.05%                                | +1.59%            |
| Flat                              | —                                     | —                 |
| -100bp                            | -3.75%                                | -3.91%            |
| -200bp                            | -10.16%                               | -10.63%           |
| -300bp                            | -20.95%                               | -23.39%           |
| -400bp                            | -40.51%                               | -47.74%           |

## Liquidity and Capital Resources

Liquidity management involves monitoring sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity represents our ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is very predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control. Asset liquidity is provided by cash and assets which are readily marketable, or which can be pledged or will mature in the near future. Liability liquidity is provided by access to core funding sources, principally the ability to generate customer deposits in our market area. In addition, liability liquidity is provided through the ability to borrow against approved lines of credit (federal funds purchased) from correspondent banks, to borrow on a secured basis through the Federal Reserve Discount Window, and to borrow on a secured basis through securities sold under agreements to repurchase. Furthermore, the Bank is a member of the FHLB and has the ability to obtain advances for various periods of time. These advances are secured by eligible securities pledged by the Bank or assignment of eligible loans within the Bank's portfolio.

We began issuing brokered certificates of deposit during the third quarter of 2023 to supplement our funding mix. As of September 30, 2024, we had \$22.4 million in brokered certificates of deposit ranging in initial terms from 18 months to three years, with the three year term callable after six months. We had \$48.1 million and \$48.1 million in brokered certificates of deposit at December 31, 2023 and at September 30, 2023, respectively. We believe that we have ample liquidity to meet the needs of our customers through our low-cost deposits, ability to borrow against approved lines of credit (federal funds purchased) from correspondent banks, ability to borrow on a secured basis through the Federal Reserve Discount Window, and ability to obtain advances secured by certain securities and loans from the FHLB.

We generally maintain a high level of liquidity and adequate capital, which along with continued retained earnings, we believe will be sufficient to fund the operations of the Bank for at least the next 12 months. Furthermore, we believe that we will have access to adequate liquidity and capital to support the long-term operations of the Bank.

The Bank maintains federal funds purchased lines in the total amount of \$77.5 million with three financial institutions and \$10.0 million through the Federal Reserve Discount Window. We utilized \$3.7 million of our federal funds purchased lines at September 30, 2024 and none at December 31, 2023. The FHLB of Atlanta has approved a line of credit of up to 25.00% of the Bank's total assets, which, when utilized, is collateralized by a pledge against specific investment securities and/or eligible loans. We had \$50.0 million in FHLB advances at September 30, 2024 compared to \$90.0 million at December 31, 2023. The FHLB advances at September 30, 2024 had maturity dates between December 9, 2024, and November 3, 2026 with interest rates between 4.81% and 5.26%. At September 30, 2024, we have remaining credit availability under this facility in excess of \$421.1 million, subject to collateral requirements. Combined, we have total remaining credit availability, subject to collateral requirements, in excess of \$505.0 million as compared to uninsured deposits excluding deposits of states or political subdivisions in the U.S., which are secured or collateralized, of \$404.3 million as previously noted.

Through the operations of our Bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. At September 30, 2024, we had issued commitments to extend unused credit of \$174.8 million, including \$63.5 million in unused home equity lines of credit, through various types of lending arrangements. At December 31, 2023, we had issued commitments to extend unused credit of \$214.2 million, including \$53.1 million in unused home equity lines of credit, through various types of lending arrangements. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes.

We regularly review our liquidity position and have implemented internal policies establishing guidelines for sources of asset-based liquidity and evaluate and monitor the total amount of purchased funds used to support the balance sheet and funding from non-core sources.

Regulatory capital rules known as the Basel III rules or Basel III, impose minimum capital requirements for bank holding companies and banks. Basel III was released in the form of enforceable regulations by each of the applicable federal bank regulatory agencies. Basel III is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than "small bank holding companies." A small bank holding company is generally a qualifying bank holding company or savings and loan holding company with less than \$3.0 billion in consolidated assets. More stringent requirements are imposed on "advanced approaches" banking organizations—generally those organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in total foreign exposures.

Based on the foregoing, as a small bank holding company, we are generally not subject to the capital requirements at the holding company level unless otherwise advised by the Federal Reserve; however, our Bank remains subject to the capital requirements. Accordingly, the Bank is required to maintain the following capital levels:

- a Common Equity Tier 1 risk-based capital ratio of 4.5%;
- a Tier 1 risk-based capital ratio of 6%;
- a total risk-based capital ratio of 8%; and
- a leverage ratio of 4%.

Basel III also established a "capital conservation buffer" above the regulatory minimum capital requirements, which must consist entirely of Common Equity Tier 1 capital, which was phased in over several years. The fully phased-in capital conservation buffer of 2.5%, which became effective on January 1, 2019, resulted in the following effective minimum capital ratios for the Bank beginning in 2019: (i) a Common Equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under Basel III, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if their capital levels fall below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under Basel III, Tier 1 capital includes two components: Common Equity Tier 1 capital and additional Tier 1 capital. The highest form of capital, Common Equity Tier 1 capital, consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income, otherwise referred to as AOCI, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital is primarily comprised of noncumulative perpetual preferred stock, Tier 1 minority interests and grandfathered trust preferred securities. Tier 2 capital generally includes the allowance for credit losses up to 1.25% of risk-weighted assets, qualifying preferred stock, subordinated debt and qualifying Tier 2 minority interests, less any deductions in Tier 2 instruments of an unconsolidated financial institution. AOCI is presumptively included in Common Equity Tier 1 capital and often would operate to reduce this category of capital. When implemented, Basel III provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of a large part of this treatment of AOCI. We made this opt-out election and, as a result, retained our pre-existing treatment for AOCI.

On December 21, 2018, the federal banking agencies issued a joint final rule to revise their regulatory capital rules to (i) address the upcoming implementation of a new credit impairment model, the CECL model; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL; and (iii) require the use of CECL in stress tests beginning with the 2023 capital planning and stress testing cycle for certain banking organizations that are subject to stress testing. As part of its response to the impact of the COVID-19 pandemic, in the first quarter of 2020, U.S. federal regulatory authorities issued an interim final rule that provided banking organizations that adopted the CECL during the 2020 calendar year with the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during the initial two-year delay (i.e., a five-year transition in total). In connection with our adoption of CECL on January 1, 2023, we did not elect to utilize the three-year phase-in period for the day-one adverse regulatory capital effects or the five-year CECL transition.

In November 2019, the federal banking regulators published final rules implementing a simplified measure of capital adequacy for certain banking organizations that have less than \$10.0 billion in total consolidated assets. Under the final rules, which went into effect on January 1, 2020, depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio of greater than 9%, off-balance-sheet exposures of 25% or less of total consolidated assets, and trading assets plus trading liabilities of 5% or less of total consolidated assets, are deemed "qualifying community banking organizations" and are eligible to opt into the "community bank leverage ratio framework." A qualifying community banking organization that elects to use the community bank leverage ratio framework and that maintains a leverage ratio of greater than 9% is considered to have satisfied the generally applicable risk-based and leverage capital requirements under the Basel III rules and, if applicable, is considered to have met the "well capitalized" ratio requirements for purposes of its primary federal regulator's prompt corrective action rules, discussed below. We do not have any immediate plans to elect to use the community bank leverage ratio framework but may make such an election in the future.

As outlined above, we are generally not subject to the Federal Reserve capital requirements unless advised otherwise because we qualify as a small bank holding company. Our Bank remains subject to capital requirements including a minimum leverage ratio and a minimum ratio of "qualifying capital" to risk weighted assets. As of September 30, 2024, the Bank met all capital adequacy requirements under the rules on a fully phased-in basis.

| (Dollars in thousands)             | Actual | Prompt Corrective Action (PCA) Requirements |                        | Excess Capital \$s of PCA Requirements |                        |  |
|------------------------------------|--------|---|------------------------|--|------------------------|--|
|                                    |        | Well Capitalized                            | Adequately Capitalized | Well Capitalized                       | Adequately Capitalized |  |
| <b>Capital Ratios</b>              |        |   |                        |  |                        |  |
| <b>September 30, 2024</b>          |        |   |                        |  |                        |  |
| Leverage Ratio                     | 8.39%  | 5.00%                                       | 4.00%                  | \$ 65,111                              | \$ 84,300              |  |
| Common Equity Tier 1 Capital Ratio | 12.93% | 6.50%                                       | 4.50%                  | 80,068                                 | 104,988                |  |
| Tier 1 Capital Ratio               | 12.93% | 8.00%                                       | 6.00%                  | 61,378                                 | 86,298                 |  |
| Total Capital Ratio                | 14.00% | 10.00%                                      | 8.00%                  | 49,823                                 | 74,743                 |  |
| <b>December 31, 2023</b>           |        |   |                        |  |                        |  |
| Leverage Ratio                     | 8.45%  | 5.00%                                       | 4.00%                  | \$ 62,821                              | \$ 81,029              |  |
| Common Equity Tier 1 Capital Ratio | 12.53% | 6.50%                                       | 4.50%                  | 74,022                                 | 98,587                 |  |
| Tier 1 Capital Ratio               | 12.53% | 8.00%                                       | 6.00%                  | 55,598                                 | 80,163                 |  |
| Total Capital Ratio                | 13.58% | 10.00%                                      | 8.00%                  | 43,925                                 | 68,491                 |  |

Under the Basel III rules, we anticipate that the Bank will remain a well capitalized institution for at least the next 12 months. Furthermore, based on our strong capital, conservative underwriting, and internal stress testing, we believe that we will have access to adequate capital to support the long-term operations of the Bank. However, the Bank's reported and regulatory capital ratios could be adversely impacted by future credit losses related to an economic recession.

As a bank holding company, our ability to declare and pay dividends is dependent on certain federal and state regulatory considerations, including the guidelines of the Federal Reserve. The Federal Reserve has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve's policies also require that a bank holding company serve as a source of financial strength to its subsidiary bank(s) by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. In addition, under the prompt corrective action regulations, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect our ability to pay dividends or otherwise engage in capital distributions. Our Board of Directors approved a cash dividend for the third quarter of 2024 of \$0.15 per common share. This dividend is payable on November 12, 2024 to shareholders of record of our common stock as of October 29, 2024.

As we are a legal entity separate and distinct from the Bank and do not conduct stand-alone operations, our ability to pay dividends depends on the ability of the Bank to pay dividends to us, which is also subject to regulatory restrictions. As a South Carolina-chartered bank, the Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the South Carolina Board of Financial Institutions, the Bank is generally permitted under South Carolina State banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the South Carolina Board of Financial Institutions. The FDIC also has the authority under federal law to enjoin a bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 4. Controls and Procedures.***Evaluation of Disclosure Controls and Procedures*

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

*Changes in Internal Control over Financial Reporting*

There has been no change in our internal control over financial reporting during the three months ended September 30, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II -  
OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are a party to claims and lawsuits arising in the course of normal business activities. Management is not aware of any material pending legal proceedings against us which we believe, if determined adversely, would have a material adverse impact on our financial position, results of operations or cash flows.

**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 Quarterly Report on Form 10-Q, including those under the caption "Cautionary Statement Regarding Forward-Looking Statements" set forth in Part I, Item 2 of this Quarterly Report on Form 10-Q, risks and matters described elsewhere in this Quarterly Report on Form 10-Q and in our other filings with the SEC.

There have been no material changes to the risk factors previously disclosed in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

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

- (a) Under the Company's Non-Employee Director Deferred Compensation Plan, as amended and restated effective as of January 1, 2021, during the three months ended September 30, 2024, we credited an aggregate of 1,450 deferred stock units, respectively, to accounts for directors who elected to defer monthly fees. These deferred stock units include dividend equivalents in the form of additional stock units. The deferred stock units were issued pursuant to an exemption from registration under the Securities Act of 1933 in reliance upon Section 4(a)(2) of the Securities Act of 1933.
- (b) Not Applicable.
- (c) No share repurchases were made during the three months ended September 30, 2024, and zero shares were withheld to satisfy tax withholding obligations applicable to the vesting of restricted stock for the three months ended September 30, 2024. On May 14, 2024, the Company announced that its Board of Directors approved the 2024 Repurchase Plan to utilize up to \$7.1 million of capital to repurchase the Company's common stock.

**Item 3. Defaults Upon Senior Securities.**

Not Applicable.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

Trading Plans

During the three months ended September 30, 2024, no director or "officer" of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

**Item 6. Exhibits.**

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| Exhibit | Description   |
|---------|---|
| 3.1     | <a href="#">Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on June 27, 2011).</a>   |
| 3.2     | <a href="#">Articles of Amendment (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on May 23, 2019).</a>   |
| 3.3     | <a href="#">Amended and Restated Bylaws dated May 16, 2023 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on May 18, 2023).</a>  |
| 31.1    | <a href="#">Rule 13a-14(a) Certification of the Principal Executive Officer.</a>  |
| 31.2    | <a href="#">Rule 13a-14(a) Certification of the Principal Financial Officer.</a>  |
| 32      | <a href="#">Section 1350 Certifications</a>   |
| 101     | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2024 and December 31, 2023, (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2024 and 2023, (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2024 and 2023 (iv) Consolidated Statements of Changes in Shareholders' Equity for the three and nine months ended September 30, 2024 and 2023, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2024 and 2023, and (vi) Notes to Consolidated Financial Statements. |
| 104     | Cover Page Interactive Data File (the cover page XBRL tags are embedded within the iXBRL document).   |

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 COMMUNITY CORPORATION  
(REGISTRANT)

Date: November 12, 2024

By: /s/ Michael C. Crapps

Michael C. Crapps  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 12, 2024

By: /s/ D. Shawn Jordan

D. Shawn Jordan  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Rule 13a-14(a) Certification of the Principal Executive Officer.**

I, Michael C. Crapps, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Community Corporation;
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 (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

/s/ Michael C. Crapps

Michael C. Crapps, President and Chief Executive Officer  
(Principal Executive Officer)

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**Rule 13a-14(a) Certification of the Principal Financial Officer.**

I, D. Shawn Jordan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Community Corporation;
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 (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

/s/ D. Shawn Jordan

D. Shawn Jordan, Chief Financial Officer  
(Principal Financial and Accounting Officer)

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer and the Chief Financial Officer of First Community Corporation (the "Company"), each certify that, to his knowledge on the date of this certification:

1. The quarterly report of the Company for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on this date (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/ Michael C. Crapps

Michael C. Crapps  
Chief Executive Officer  
November 12, 2024

/s/ D. Shawn Jordan

D. Shawn Jordan  
Chief Financial Officer  
November 12, 2024

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