CoastalSouth Bancshares, Inc.
and Subsidiary

Report on Consolidated Financial Statements

As of and for the Years Ended December 31, 2024 and 2023

CoastalSouth Bancshares, Inc. and Subsidiary
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elliott davis

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Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of CoastalSouth Bancshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 5, 2025 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued, (or within one year after the date that the financial statements are available to be issued when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Elliott Davis, LLC

Greenville, South Carolina
March 5, 2025

CoastalSouth Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

As of and for the Years Ended December 31, 2024 and 2023

(In thousands of dollars except share and per share amounts)	2024	2023
Assets		
Cash and cash equivalents		
Cash and due from banks	$ 8,391	$ 10,937
Interest-bearing accounts with other banks	28,929	8,664
Federal funds sold	30,641	28,952
Total cash and cash equivalents	67,961	48,553
Investments		
Securities available-for-sale, at fair value	335,267	354,796
Non-marketable equity securities	7,483	8,608
Total investments	342,750	363,404
Loans held for sale	174,033	82,125
Loans held for investment	1,409,443	1,418,425
Allowance for credit losses - loans	(17,118)	(15,465)
Loans held for investment, net	1,392,325	1,402,960
Bank-owned life insurance	46,484	44,887
Deferred tax asset	18,148	21,242
Premises, furniture and equipment, net	17,796	17,711
Goodwill	4,708	4,708
Intangible assets	1,678	1,755
Other assets	32,829	41,254
Total assets	$ 2,098,712	$ 2,028,599
Liabilities		
Deposits		
Non-interest bearing transaction accounts	$ 302,907	$ 325,400
Interest-bearing transaction accounts	181,068	174,380
Savings and money market	591,626	608,079
Time deposits	759,201	642,798
Total deposits	1,834,802	1,750,657
Other borrowings	41,725	88,672
Other liabilities	26,953	33,227
Total liabilities	1,903,480	1,872,556
Commitments and Contingencies (Note 12)		
Shareholders' Equity		
Preferred stock, $1.00 par value, 10,000,000 shares authorized, no shares issued or outstanding	—	—
Voting common stock, $1.00 par value, 50,000,000 shares authorized, 8,098,117 and 7,367,900 shares issued and outstanding at December 31, 2024 and 2023, respectively.	8,098	7,368
Nonvoting common stock, $1.00 par value, 10,000,000 shares authorized, 2,172,029 shares issued and outstanding at December 31, 2024 and 2023	2,172	2,172
Capital surplus	158,755	145,944
Retained earnings	41,994	20,090
Accumulated other comprehensive loss	(15,787)	(19,531)
Total shareholders' equity	195,232	156,043
Total liabilities and shareholders' equity	$ 2,098,712	$ 2,028,599

The accompanying notes are an integral part of these consolidated financial statements.

CoastalSouth Bancshares, Inc. and Subsidiary

Consolidated Statements of Operations

For the Years Ended December 31, 2024 and 2023

(In thousands of dollars, except per share amounts)	2024	2023
Interest income		
Loans, including fees		
Loans held for investment	$ 93,046	$ 86,248
Loans held for sale	10,272	5,087
Investments		
Taxable	15,217	10,446
Non-taxable	395	534
Non-marketable equity securities	434	324
Federal funds sold	3,751	4,083
Other earning assets from banks	534	295
Total	123,649	107,017
Interest expense		
Interest-bearing deposits	53,443	39,300
Other borrowings	4,884	3,423
Total	58,327	42,723
Net interest income	65,322	64,294
Provision for credit losses	553	1,543
Net interest income after provision for credit losses	64,769	62,751
Noninterest income		
Gain on sale of government guaranteed loans	1,818	1,360
Bank-owned life insurance	1,664	2,680
Income from mortgage originations	1,204	912
Interchange income and card fees	868	1,045
Service charges on deposit accounts	846	755
Gain on hedge termination	-	992
Losses on sale of available-for-sale securities	(3,465)	(517)
Other noninterest income	1,579	1,367
Total noninterest income	4,514	8,594
Noninterest expenses		
Salaries and employee benefits	26,187	24,573
Occupancy and equipment	2,995	2,921
Other professional fees	2,046	2,721
Software and other technology expense	2,742	2,334
Data processing	2,213	2,080
Regulatory assessment	1,291	1,479
Other noninterest expense	4,594	3,742
Total noninterest expense	42,068	39,850
Income before taxes	27,215	31,495
Income tax provision	5,311	7,017
Net income	$ 21,904	$ 24,478
Net income per common share:		
Basic	$ 2.15	$ 2.61
Diluted	$ 2.09	$ 2.58

The accompanying notes are an integral part of these consolidated financial statements.

CoastalSouth Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2024 and 2023

(In thousands of dollars)	2024	2023
Net income	$ 21,904	$ 24,478
Other comprehensive income		
Change in unrealized gain on available-for-sale securities	1,954	9,078
Reclassification adjustment for net loss on sale of securities included in net income	3,465	517
Reclassification adjustment for net gain on termination of fair value hedges included in net income	-	(992)
Income tax effect	(1,269)	(1,964)
Unrealized gain on available-for-sale securities, net of tax	4,150	6,639
Unrealized (loss) gains on derivatives:		
Change in unrealized gain on cash flow hedges	762	567
Reclassification adjustment for net (gain) loss included in net income	(1,296)	98
Income tax effect	128	(160)
Unrealized (loss) gain on derivative instruments, net of tax	(406)	505
Other comprehensive income, net of tax	3,744	7,144
Comprehensive income	$ 25,648	$ 31,622

The accompanying notes are an integral part of these consolidated financial statements.

CoastalSouth Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2024 and 2023

(In thousands of dollars except share amounts)	Common Stock				Capital Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income/ (Loss)	Total
	Voting		Nonvoting					
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2022	6,894,345	$ 6,894	2,065,029	$ 2,065	$ 136,599	$ (86)	$ (26,675)	$ 118,797
Issuance of common stock under incentive plan	26,850	27	-	-	(27)	-	-	-
Issuance of common stock upon private placement	446,705	447	107,000	107	8,281	-	-	8,835
Stock-based compensation expense	-	-	-	-	1,091	-	-	1,091
Net income	-	-	-	-	-	24,478	-	24,478
Cumulative effect of change in accounting for credit losses, net of tax	-	-	-	-	-	(4,302)	-	(4,302)
Other comprehensive loss, net of tax	-	-	-	-	-	-	7,144	7,144
Balance as of December 31, 2023	7,367,900	$ 7,368	2,172,029	$ 2,172	$ 145,944	$ 20,090	$ (19,531)	$ 156,043
Issuance of common stock under incentive plan	28,775	29	-	-	(29)	-	-	-
Issuance of common stock upon private placement	701,442	701	-	-	11,543	-	-	12,244
Stock-based compensation expense	-	-	-	-	1,297	-	-	1,297
Net income	-	-	-	-	-	21,904	-	21,904
Other comprehensive income, net of tax	-	-	-	-	-	-	3,744	3,744
Balance as of December 31, 2024	8,098,117	$ 8,098	2,172,029	$ 2,172	$ 158,755	$ 41,994	$ (15,787)	$ 195,232

The accompanying notes are an integral part of these consolidated financial statements.

CoastalSouth Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2024 and 2023

(In thousands of dollars)	2024	2023
Operating activities		
Net income	$ 21,904	$ 24,478
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Provision for credit losses	553	1,543
Depreciation expense and software amortization	1,329	1,289
Increase in cash value of bank-owned life insurance	(1,597)	(2,680)
Stock-based compensation expense	1,297	1,091
Net loss on sale of available-for-sale securities	3,465	517
Amortization of operating lease right-of-use assets	817	769
Amortization of debt issuance costs	53	38
Net gain on sale of other real estate owned	-	(56)
Gain on sale of government guaranteed loans, including originations of servicing rights	(1,818)	(1,360)
Gain on sale of other loans	(217)	(455)
Income from mortgage operations	(1,204)	(912)
Gain on hedge termination	-	(992)
Discount accretion and premium amortization on securities available-for-sale	(533)	564
Amortization of intangible assets	503	771
Deferred income tax expense (benefit)	1,953	(259)
Change in SBA contingency reserve	(778)	(1,848)
Originations of loans held for sale	(5,008,388)	(2,426,258)
Proceeds from loans held for sale	4,967,455	2,437,531
Decrease (increase) in other assets	7,891	(5,177)
(Decrease) increase in other liabilities	(5,354)	8,545
Net cash (used) provided by operating activities	(12,669)	37,139
Investing activities		
Purchase of securities available-for-sale	(79,397)	(19,417)
Proceeds from sales of securities available-for-sale	39,100	11,987
Proceeds from paydowns, calls, and maturities on securities available-for-sale	62,218	27,450
Net sale (purchase) of non-marketable equity securities	1,125	(3,211)
Loan originations and principal collections, net	(38,944)	(170,650)
Net purchase of premises, furniture and equipment	(1,414)	(310)
Proceeds from sales of other real estate owned	-	299
Purchases of bank-owned life insurance	-	(22,500)
Net cash used by investing activities	(17,312)	(176,352)
Financing activities		
Net increase in deposits	84,145	202,011
Net repayment of Federal Home Loan Bank advances	(35,000)	(58,044)
Proceeds from private placement capital raise	12,244	8,835
Net (repayment) proceeds from commercial line of credit	(12,000)	6,000
Net cash provided by financing activities	49,389	158,802
Net increase in cash and cash equivalents	19,408	19,589
Cash and cash equivalents, beginning of year	48,553	28,964
Cash and cash equivalents, end of year	$ 67,961	$ 48,553
Cash (received) paid during the year for:		
Interest	$ 60,596	$ 36,326
Income taxes	(884)	5,293
Noncash investing and financing activities:		
Unrealized gain on securities available-for-sale, net	4,150	6,639
Unrealized (loss) gain on derivatives, net	(406)	505
Transfers of loans to other real estate owned	864	-
Adoption of ASU 2016-13	-	4,302
Transfers from loans held for investment to loans held for sale	47,652	46,094
Right-of-use assets obtained in exchange for new operating lease liabilities	1,084	-
Lease liabilities arising from obtaining right-of-use assets	1,084	-

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

CoastalSouth Bancshares, Inc. (the "Company"), headquartered in Atlanta, Georgia, is a registered bank holding company with one banking subsidiary, Coastal States Bank ("CSB"). CSB operates 11 retail banking branches in three retail main retail markets, the Lowcountry of South Carolina, Savannah, Georgia, and metro Atlanta, Georgia. CSB also operates four specialty lines of business that operate on a national platform, including senior housing lending, marine lending, government guaranteed lending, including both Small Business Association ("SBA") and United States Department of Agriculture ("USDA") lending, and Mortgage Banker Finance ("MBF"), which provides warehouse lending to independent mortgage originators. The deposits of CSB are insured by the Federal Deposit Insurance Corporation ("FDIC"). CSB has one wholly owned subsidiary, Coastal States Mortgage, Inc. ("CSM"), a mortgage company focused on originating residential mortgages to either sell to investors or to retain in the portfolio.

The Company was organized on September 28, 2003 as a Virginia corporation, with no activity until August 9, 2004. CSB was organized as a South Carolina state-chartered bank on July 30, 2004 and opened on August 9, 2004. On May 12, 2023, the Company was domiciled and incorporated under the laws of the State of Georgia and surrendered its articles of incorporation under the laws of the Commonwealth of Virginia. Upon domestication in the State of Georgia, the name of the Company remained CoastalSouth Bancshares, Inc. Additionally, in 2023, CSB became a member of the Federal Reserve Bank of Richmond, who now serves as the primary federal regulator, replacing the FDIC.

Nature of Business

The Company offers full-service banking services designed to meet the needs of retail and commercial customers in the markets in which it operates. The services offered include transaction and savings deposit accounts, commercial and consumer lending, mortgage banking, and other activities related to commercial banking. The Company and CSB are subject to the regulations of certain federal and state agencies and are periodically examined by those regulatory agencies. CSM is an approved mortgage lender with the Federal Housing Administration, Department of Veterans Affairs, Federal Home Loan Mortgage Corporation, and USDA, and an approved servicer with Federal National Mortgage Association.

Use of Estimates in the Preparation of Financial Statements

The accounting and reporting policies of the Company and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America ("US GAAP" or "GAAP") and also conform to general industry practices. Some of our significant accounting principles require complex judgments to estimate the values of assets and liabilities, for instance, the Allowance for Credit Losses ("ACL"), among others. All intercompany accounts and transactions have been eliminated in consolidation. Assets and liabilities of purchased companies are stated at estimated fair values at the date of acquisition. Results of operations of companies purchased are included from the date of acquisition.

Management's Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include:

- Determination of the allowance for credit losses
- Income taxes, including tax provisions and realization of deferred tax assets
- Fair value of assets and liabilities acquired, including intangible assets and goodwill
- Determination of fair value of securities available-for-sale and derivative assets and liabilities

Debt Securities

The Company classifies debt investment securities into three categories: trading, held-to-maturity ("HTM"), and available-for-sale ("AFS"). Management determines the appropriate classification of investment securities at the time of purchase. Debt investment securities are classified as HTM when the Company has the positive intent and ability to hold the investment securities to maturity. HTM investment securities are carried at amortized cost. At December 31, 2024 and 2023, the Company had no investment securities classified as HTM.

Investment securities classified as trading are held principally for resale in the near term and are recorded at fair value. Gains or losses, either unrealized or realized, are reported in noninterest income. At December 31, 2024 and 2023, the Company had no investment securities classified as trading.

Investment securities not classified as either HTM or trading are classified as AFS. Investment securities AFS are stated at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of Accumulated other comprehensive income (loss) ("AOCI" or "AOCL") in the Consolidated Statements of Comprehensive Income.

The amortized cost of debt investment securities classified as either HTM or AFS is adjusted for amortization of premiums and accretion of discounts to maturity or call, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization is considered an adjustment to yield on the security and included in interest income from investments. Interest and dividends are included in interest on investment securities in the Consolidated Statements of Operations.

Gains and losses realized from the sales of investment securities are determined by specific identification and are included in noninterest income. The Company, at least on a quarterly basis, evaluates AFS securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an ACL on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value with a charge to earnings.

Equity Securities

Equity securities are recorded at fair value, with changes in fair value presented in other noninterest income. The fair value of equity securities is based on observable market prices. At December 31, 2024 and 2023, the Company had no investments classified as equity securities.

Non-Marketable Equity Securities

Equity securities without readily determinable fair values (non-marketable) that are not held for trading purposes includes Federal Home Loan Bank of Atlanta (“FHLBA”) capital stock, Federal Reserve Bank of Richmond ("FRB") capital stock and various other non-marketable equity investments. Investment in the FHLBA is a condition of borrowing from the FHLBA, and the stock is pledged to collateralize such borrowings. FHLBA stock is carried at cost, classified as a non-marketable security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as interest income. At December 31, 2024 and 2023, the Company’s investment in FHLBA stock was $2.1 million and $3.7 million, respectively. By becoming a member bank of the Federal Reserve System during 2023, the Bank was required to subscribe to FRB stock in an amount equivalent to six percent of its capital and surplus. At December 31, 2024 and 2023, the Company’s investment in FRB stock was $5.3 million and $4.9 million, respectively. Dividends received on non-marketable equity securities are included as a separate component in interest income.

Loans Held for Sale

Loans held for sale (“LHFS”) includes loans acquired through the Company’s MBF line of business that are acquired with the intent to sell. Interest income on LHFS is recognized in the period earned using the effective interest method. These LHFS are accounted for at the lower of cost or fair value; as of December 31, 2024, and 2023, respectively, there have been no fair value adjustments recorded on this type of LHFS.

LHFS also represents mortgage loans originated by CSM with the intent to sell. Generally, loans originated by CSM with the intent to sell are accounted for at fair value. These loans are initially recorded and carried at fair value, with changes in fair value recognized in income from mortgage originations. There were no LHFS of this type on December 31, 2024 and 2023.

Additionally, the Company may periodically decide to sell other commercial and consumer loans and may reclassify loans from held for investment to held for sale when appropriate. At the time of transfer, the amount by which the amortized cost basis of the LHFS exceeds fair value may be accounted for as a valuation allowance or direct write-down.

Loans Held for Investment

Loans held for investment ("LHFI") are stated at their amortized cost basis, net of any charge-offs, on the balance sheet. Interest income on loans is computed based upon the unpaid principal balance. Interest income on loans is recognized in the period earned and is computed using the effective interest method. The Company separately reports accrued interest receivable on LHFI in Other assets. Loan origination fees and certain direct loan origination costs, as well as purchase premiums and discounts, are deferred and amortized to income over the contractual life of the related loans or commitments, adjusted for prepayments, using a method that approximates a level yield.

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement or any portion thereof remains unpaid after the due date of the scheduled payment. Loans are placed on nonaccrual status when it becomes probable that interest is not fully collectable, generally when the loan becomes 90 days past due. Once loans are placed on nonaccrual status, previously accrued but unpaid interest is reversed from interest income, and the accrual of interest income is suspended. Future payments received are applied to the principal balance of the loan. If and when borrowers demonstrate the sustained ability to repay such loans in accordance with the loan's contractual terms, the loan may be returned to accrual status. Loans which become 90 days past due are reviewed for collectability of principal. Principal amounts deemed uncollectable are charged off against the ACL, unless such loans are in the process of modification, collection through repossession, or foreclosure. Certain consumer loans are not placed on nonaccrual but are monitored and charged-off at 120 days past due.

Acquired Loans

The Company's accounting methods for acquired loans depends on whether or not the acquired loans reflect more-than-insignificant credit deterioration since origination at the date of acquisition.

Non-Purchased Credit Deteriorated Loans — Non-Purchased Credit Deteriorated ("Non-PCD") loans do not reflect more-than-insignificant credit deterioration since origination at the date of acquisition. These loans are recorded at fair value and an increase to the ACL is recorded with a corresponding increase to the provision for credit losses at the date of acquisition. The difference between the fair value and the unpaid principal balance ("UPB") at the acquisition date is amortized or accreted to interest income over the contractual life of the loan using the effective interest method.

Purchased Credit Deteriorated Loans — Purchased Credit Deteriorated ("PCD") loans, formerly referred to as Purchased Credit Impaired ("PCI") loans and accounted for under ASC 310-30, prior to the adoption of ASU 2016-13, are purchased loans which have experienced more-than-insignificant deterioration in credit quality since origination, as determined by the Company's assessment under the new guidance.

On purchase date, expected credit losses for PCD loans are initially recognized through an ACL and are added to the purchase price to determine the amortized cost basis of the loans. Any non-credit discount (or premium) resulting from acquiring such loans is recognized as an adjustment to interest income over the remaining lives of the loans. Subsequent to the acquisition date, the change in the allowance for credit losses on PCD loans is recognized through provision for credit losses. The non-credit discount (or premium) is accreted or amortized, respectively, into interest income over the remaining life of the PCD loan on a level-yield basis.

For the previously acquired PCI assets through legacy business combinations, the Company utilizes legacy PCI categorization to identify PCD loans. Upon adoption of ASU 2016-13, the Company extinguished the legacy PCI pools. For the new acquisition of loans subsequent to the implementation of ASC 2016-13, the Company identifies PCD loans using several indicators to help identify more-than-insignificant deterioration in credit quality since origination including, but not limited to:

- Delinquency (both current status and historical delinquency patterns)
- Regulatory rating of worse than pass
- Nonaccrual status
- Historical troubled debt restructure or restructure of a loan to a borrower experiencing financial difficulties

After acquisition, the ACL for PCD assets is adjusted at each reporting date with a corresponding debit or credit to the provision for credit losses to reflect management's current estimate of expected credit losses. The non-credit discount recorded at acquisition is accreted into interest income over the remaining life of the PCD assets on a level-yield basis. Charge-offs and recoveries on PCD assets is recognized through the ACL.

Loan Modifications

ASU 2022-02 eliminated the Troubled Debt Restructurings ("TDR") recognition and measurement guidance for creditors that have adopted Current Expected Credit Losses ("CECL") methodology. Following the adoption of ASU 2022-02, the guidance for modifications to loans with troubled and non-troubled borrowers are the same. Under the new guidance, the Company treats all modifications and refinancings (including those with borrowers that are experiencing financial difficulty) in accordance with the modification guidance in ASC 310-20. The Company evaluates whether the modification represents a new loan or a continuation of an existing loan consistent with the accounting for other loan modifications. A loan modification or refinancing results in a new loan if:

(i) The terms of the new loan (including its interest rate) are at least as favorable to the Company as the terms with customers with similar collection risks that are not refinancing or restructuring their loans, and
(ii) The modifications to the terms of the loan are more than minor.

When a refinancing or restructuring is deemed to be a modification, the investment in the new loan is comprised of the remaining net investment in the original loan, any additional funds advanced to the borrower, any fees received, and direct loan origination costs associated with the refinancing or restructuring, and the effective interest rate of the loan is recalculated based upon the amortized cost basis of the new loan and its revised contractual cash flows. Unamortized net fees or costs from the original loan and any prepayment penalties are recognized in interest income when the new loan is granted as well as determining a new effective interest rate.

Modifications to borrowers experiencing financial difficulty are limited to those that result in principal forgiveness, interest rate reductions, other-than-insignificant payment delays, or term extensions in the current reporting period.

Allowance for Credit Losses — Available-for-Sale Securities

The impairment model for AFS securities differs from the CECL approach utilized by HTM debt securities because AFS debt securities are measured at fair value rather than amortized cost. Although ASU 2016-13 replaced the legacy OTTI model with a credit loss model, it retained the fundamental nature of the legacy OTTI model. One notable change from the legacy OTTI model is that when evaluating whether credit loss exists, an entity may no longer consider the length of time fair value has been less than amortized cost.

For the AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through income. For those AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than the amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

Any impairment that has not been recorded through an allowance for credit losses is recognized in AOCL. As of December 31, 2024, the Company determined that there were no unrealized loss positions in AFS securities that were as a result of credit losses, and therefore, no ACL was recorded.

Allowance for Credit Losses – Loans

Under the CECL model, the ACL on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The ACL represents management's best estimate of credit losses expected over the life of the loan, adjusted for expected contractual payments and the impact of prepayment expectations. ACL is not required for LHFS.

The Company estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. It is the Company's policy to write off uncollectible interest receivable of LHFI when it is considered uncollectible, which is generally when an asset is placed on nonaccrual and exclude it from the ACL.

Expected credit losses are reflected in the ACL through a charge to provision for credit losses. When the Company deems all or a portion of a loan to be uncollectible the appropriate amount is written off and the ACL is reduced by the same amount. Loans are charged off against the ACL when management believes the collection of the principal is unlikely. Subsequent recoveries of previously charged off amounts, if any, are credited to the ACL when received.

Loss Rate Method

The Company measures expected credit losses of loans on a collective (pool) basis when the loans share similar risk characteristics. The Company leverages external historical loss data to determine loss rates for loan segments. The external data sets used are more robust than internal data or peer bank call report data. For collective assessment, CSB uses three loss rate models which are the Commercial Real Estate ("CRE") Loss Rate Model, Commercial and Industrial ("C&I") Loss Rate Model, and Expected Consumer Credit Loss Model ("ECCL"). CSB considers the nature of each credit, underwriting considerations, and best model fit within the models to determine the collective pool population.

Loans are pooled based on similar risk characteristics for each of the models used. The Company applies the CRE Loss Rate Model to commercial loans where the value of collateral is the primary factor for underwriting the loan. This includes acquisition, development, and construction loans ("ADC") and income producing CRE loans. These loans are pooled considering vintage, construction status, delinquency status, and property type. The original loan to value of loans in the CRE model is also a risk driver for determining the loss rate of each pool. The Company applies the C&I Loss Rate Model to commercial loans where cash flow of the borrower is the primary factor for underwriting the loan. This includes owner-occupied CRE loans, senior housing loans, and other commercial and industrial loans. These loans are pooled considering the loan's age, credit spread at origination, loan size, primary industry, and regulatory risk rating. The Company applies the ECCL Loss Rate Model to loans where personal creditworthiness is the primary factor for underwriting the loan. This includes residential mortgage loans, marine loans, cash value of life insurance lines of credit, and other consumer loans. These loans are pooled considering various product types, origination vintage, credit score at origination, and borrower state. Additional discussion regarding the Company's loan classifications is included in Note 3, *Loans and Allowance for Credit Losses*.

The Company leverages three economic forecast scenarios, considering a baseline, downside, and upside outcome which are probability weighted as 40%, 30% and 30%, respectively. The forecasts are considered reasonable and supportable for the duration of the forecast. Management reviews the weighting of the above scenarios at least annually to confirm that no changes are needed. Within each loss rate model, the following economic macroeconomic variables are used:

- *CRE Loss Rate Model*: Commercial Real Estate Price Index, Real GDP, Unemployment Rate
- *C&I Loss Rate Model*: Unemployment Rate, USA BBB Spread
- *ECCL Loss Rate Model*: Unemployment Rate and various product specific macroeconomic factors

Qualitative Factors

The Company also considers qualitative factor adjustments that are relevant to the institution as of the reporting date in addition to the quantitative model discussed above. This may include, but is not limited to, the nature and volume of the institution’s financial assets, the existence, growth, and effect of any concentrations of credit, the volume and severity of past due financial assets, the volume of nonaccrual assets, the volume and severity of adversely classified or graded assets, the value of the underlying collateral for loans that are not collateral-dependent, the institution’s lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, the quality of the institution’s credit review function, the experience, ability, and depth of the institution’s lending, investment, collection, and other relevant management and staff, the effect of other external factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters, and actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the institution operates that affect the collectability of financial assets.

Individually Analyzed Collateral-Dependent Loans

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

For practical application, loans may be identified for individual analysis if they are nonaccrual. These loans have a history of non-performance and/or financial difficulty of the borrower. As a matter of Company policy, nonaccrual loans under $100 thousand may be excluded from individual analysis due to materiality. Charge-offs may still be recorded for loans less than $100 thousand when the loan becomes 90 days past due, as determined to be necessary.

Charge-offs and Recoveries

Loan losses are charged against the allowance when management believes that the collection of a loan's principal is unlikely. Subsequent recoveries are credited to the allowance. When any loan or portion thereof becomes uncollectible; (i) if unsecured, the loan is charged-off in full, (ii) if secured, the outstanding principal balance of the loan is charged down to the net liquidation value of the collateral, (iii) any accrued, unpaid interest is also charged-off when the principal balance is charged-off; however, accrued, unpaid interest is generally not charged against the ACL, but is charged against income in the period the charge-off is recognized, and (iv) accrued, unpaid interest is also charged-off against current period earnings when a loan is placed on nonaccrual.

Allowance for Credit Losses - Unfunded Commitments

The Company records an ACL on unfunded loan commitments, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's Consolidated Statements of Operations. The ACL unfunded commitment exposures are estimated by loan segment at each balance sheet date under the CECL model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur. The allowance for unfunded commitments is included in Other Liabilities on the Company's Consolidated Balance Sheets.

Bank-Owned Life Insurance

Bank-Owned Life Insurance ("BOLI") is long-term life insurance on the lives of certain employees where the insurance policy benefits and ownership are retained by the employer. To date, the Company has purchased life insurance policies on certain senior officers. BOLI is recorded at the cash surrender value, which can be adjusted for charges due at settlement at the balance sheet date. The cash value accumulation on BOLI is permanently tax deferred if the policy is held until the insured person's death. The total amount of BOLI at December 31, 2024 and 2023 was $46.5 million and $44.9 million, respectively.

Core Deposit Intangible

As a result of business combinations, identifiable intangible assets were recorded representing the estimated value of core deposits assumed. The Company amortizes the intangible assets over their estimated useful lives. Core deposit intangibles are periodically reviewed for reasonableness and are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable.

Commercial Mortgage Servicing Rights

The Company's commercial mortgage servicing rights ("CMSRs") arise from the sale of participating interests in government guaranteed loans to third parties where servicing is retained by the Company. The Company defines its classes of servicing assets relationship to the government guarantor, such as USDA or SBA guaranteed loans. The Company initially records servicing assets at fair value at the time the sale is recognized. The determination of fair value is based on a discounted cash flow analysis using the contractual terms of the associated loan being serviced and considers assumptions such as discount rate and prepayment speed. Subsequently, the Company amortizes these servicing assets over the expected life of the related loan, adjusting for expected prepayments. Periodically, the Company evaluates these assets for impairment. When the carrying value exceeds the fair value of a class of servicing assets, the Company recognizes impairment of the servicing assets.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value.

If the fair value of the reporting unit exceeds its carrying value, no further testing is required. If the carrying value exceeds the fair value, further analysis is required to determine whether an impairment charge must be recorded based upon the implied fair value of goodwill and, if so, the amount of such charge. The Company performs its goodwill testing at least on an annual basis unless it is determined that conditions exist to indicate impairment.

Premises, Furniture and Equipment

Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings of 30 to 40 years and software, furniture, and equipment of 3 to 10 years. Leasehold improvements are amortized over the shorter of the life of the respective leases or the useful life of the asset. The cost of assets sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the Consolidated Statements of Operations when incurred. Routine maintenance and repairs are charged to current expense. The costs of major repairs and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

Operating Leases

Operating lease Right-of-Use ("ROU") assets represent the Company's right to use an underlying asset during the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental collateralized borrowing rate provided by the FHLBA fixed-rate advances at the lease commencement date. ROU assets are further adjusted for lease incentives, if any. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is recorded in occupancy expense in the Consolidated Statements of Operations. The Company has elected as a practical expedient, an accounting policy election by class of underlying asset, not to separate nonlease components from lease components and instead to account for each separate lease component and the nonlease components associated with that lease component as a single lease component.

Other Real Estate Owned

Other real estate owned ("OREO") includes assets that have been acquired in satisfaction of debt through foreclosure. OREO is recorded at the lower of cost or fair value, minus estimated costs to sell. Subsequent to foreclosure, losses resulting from the periodic revaluation of the property are charged to loss on other real estate owned, net and a new carrying value is established. Any gains or losses realized at the time of disposal or subsequent write-downs are reflected in the Consolidated Statements of Operations. Expenses to maintain such assets are included in net cost of operation of other real estate owned which is included in Other noninterest expense. OREO outstanding at December 31, 2024 was $864 thousand which is in Other assets on the consolidated balance sheets. There was no OREO outstanding at December 31, 2023.

Other Borrowings

The FHLBA allows the Company to obtain advances through its credit program. These advances may be secured by securities owned by the Company and held in safekeeping by the FHLBA, FHLBA stock owned by the Company, and certain qualifying loans secured by real estate, including residential mortgage loans, home equity lines of credit and commercial real estate loans.

The Company also obtains advances via the FRB through the discount window. Discount window advances are secured by investment securities pledged to the FRB. The Company also had access to the Bank Term Funding Program ("BTFP") via the FRB through March 11, 2024 with no outstanding balance December 31, 2024.

The Company also has issued subordinated notes to certain qualified institutional buyers and institutional accredited investors and opened a commercial line of credit with a third party commercial bank that is used for general corporate purposes, including continued growth and maintenance of the bank level regulatory capital ratios.

Liabilities for Representations and Warranties

The Company is exposed to certain liabilities under representations and warranties made to purchasers of mortgage loans and servicing rights that require indemnification or repurchase of loans. At the time it issues a guarantee, the Company is required to recognize an initial liability for the fair value of obligations assumed under the guarantee.

The Company establishes a contingency reserve for its liabilities under representations and warranties provided to purchasers of its mortgage loans. This reserve is maintained at a level considered appropriate by management to provide for known and inherent losses. The reserve is based upon a continuing review of past loss experience, estimates and assumptions of risk elements and future economic conditions. Additions to the reserve are recorded in other expenses.

Management's judgment about the adequacy of the reserve is based upon a number of assumptions about future events which it believes to be reasonable. There is no assurance that additional increases in the reserve will not be required. The Company may from time-to-time be required to repurchase loans previously sold to investors due to loan nonperformance. At December 31, 2024 and 2023, the Company had a contingency reserve of $6 thousand and $39 thousand, respectively, for potential mortgage indemnifications to other third-party purchasers.

The Company also establishes a contingency reserve for repairs or denials of guarantees on certain SBA loans sold into the secondary market where the guarantee could be at risk in the SBA contingency reserve, which is included in Other liabilities. Management's judgment about the adequacy of the reserve is based on assumptions about future events which it believes to be reasonable. There is no assurance that additional increases in the reserve will not be required. At December 31, 2024, the Company had no SBA contingency reserve and had a reserve of $778 thousand at December 31, 2023. These contingency reserves were for denials or repairs of SBA guarantees on loans sold to third-party purchasers that were related to SBA loans acquired from Cornerstone Bank.

Variable Interest Entities

A variable interest entity ("VIE") is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments. An entity is considered the primary beneficiary when it received the significant economics of the entity, and it has the power to direct the activities that most impact the VIE's economic performance. The primary beneficiary is required to consolidate the VIE. Upon entering an agreement with a VIE, the Company performs an assessment to determine if consolidation is required.

In 2023, the Company entered into a limited partnership with SOLCAP 2023-2CH LLC ("SOLCAP 2023") with a capital commitment of $8.5 million for the purpose of obtaining the benefits of tax credits generated from renewable energy projects. The Company is not the primary beneficiary of SOLCAP 2023 and therefore does not consolidate the VIE.

In 2024, the Company entered into a limited partnership with SOLCAP 2024-PA LLC ("SOLCAP 2024") with a capital commitment of $6 million for the purposes of obtaining the benefits of tax credits generated from renewable energy projects. The Company is not the primary beneficiary of SOLCAP 2024 and therefore does not consolidate the VIE.

The Company accounts for the VIE under the equity method of accounting. The Company has made an election under ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Investments in Tax Credit Structures*, to apply the proportional amortization method ("PAM") to solar tax credit investments when it is eligible. However, the investment SOLCAP 2023 did not meet the criteria for PAM; therefore, the Company is using the deferral method for accounting for the tax credits from this 2023 fund. Future investments in solar tax credits will be evaluated for accounting using PAM. The investment in SOLCAP 2024 did meet the criteria for PAM. The carrying amount of equity method investments is reported in

Other assets in the Consolidated Balance Sheets and the net benefit to income tax expense from these tax credit investments is disclosed in Note 12, *Commitments and contingencies*.

Management assesses equity method investments in VIE's for impairment when any events or changes in circumstance indicate that the carrying amount of the investment will not be realized. Management performs this assessment on an annual basis unless specific events or triggers are identified that warrant more timely consideration. Any identified impairment losses are recognized when a decline in value below the carrying amount of the investment is considered to be other-than-temporary, and previously recognized impairment losses are not reversed as is consistent with the guidance.

Derivative Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations and uses interest rate derivatives as part of its asset-liability management strategy to help manage its interest rate risk position. The Company records all derivative assets and liabilities on the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting in accordance with ASC 815, *Derivatives and Hedging*. The Company currently has derivatives that are designated as qualifying hedging relationships. In addition, the Company also has a credit derivative under a risk participation agreement that is not designated as a qualifying hedging relationship. Credit derivatives are not speculative and are not used to manage interest rate risk in assets or liabilities.

Changes in fair value of the Company's cash flow hedges are recognized in AOCI or AOCL and reclassified to earnings in the period during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item. For fair value hedges, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item are recognized in current earnings as fair value changes. The change in fair value of the hedged item is recorded as a basis adjustment to the hedged assets or liabilities.

For fair value hedges meeting certain specific criteria, the Company applies the shortcut method of hedge accounting. For other derivatives that do not fall under shortcut method, the Company assesses the effectiveness of each hedging relationship by comparing the changes in the cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions.

Income Taxes

Income tax expense is based upon income before income taxes and generally differs from income taxes paid due to deferred income taxes and benefits arising from income and expenses being recognized in different periods for financial and income tax reporting purposes, as well as permanent differences. The Company uses the asset and liability method to account for deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of the Company's assets and liabilities at the effective rates expected to be in effect when such amounts are realized or settled. The Company evaluates the realization of deferred tax assets based upon all positive and negative evidence available at the balance sheet date. Realization of deferred tax assets is based upon the Company's judgments, including taxable income within any applicable carryback periods, future projected taxable income, reversal of taxable temporary differences and other tax-planning strategies to maximize realization of the deferred tax assets. A valuation allowance is recognized for a deferred tax asset if, based upon the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. In computing the income tax provision or benefit, the Company evaluates the technical merits of its income tax positions based upon current legislative, judicial, and regulatory guidance.

The Company continually monitors and evaluates the potential impact of current events on the estimates used to establish income tax expense and income tax liabilities. The Company and its Subsidiary file a consolidated federal income tax return and separate state income tax returns based upon current tax law, positions taken by various tax auditors within the jurisdictions that the Company is required to file income tax returns, as well as potential or pending audits or assessments by such tax auditors. If the Company incurs interest and/or penalties related to income tax matters, it will report them as a part of income tax expense.

The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

Retirement Plan

The Company has a 401(k) profit sharing plan (the "Plan"), which provides retirement benefits to officers and employees who meet certain age and service requirements. The Plan includes a salary reduction feature pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). At its discretion, the Bank makes matching contributions to the Plan. Employer contributions for the 401(k) profit sharing plan were $970 thousand and $902 thousand in 2024 and 2023, respectively, and are included in salaries and employee benefits.

Net Income Per Common Share

Basic net income per common share represents income available to shareholders divided by the weighted-average number of common shares outstanding during the period. Dilutive income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate solely to outstanding options, warrants and restricted stock units and are determined using the treasury stock method. Potential common shares are not included in the denominator of the diluted per share computation when inclusion would be anti-dilutive.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is defined as the change in shareholders' equity during the period from transactions and other events and circumstances from nonowner sources. Accumulated other comprehensive income (loss) includes the reclassification for realized gains and losses from investment securities sales during the period, the unrealized holding gains and losses from investment securities available-for-sale and the change in fair value of derivatives, including termination of derivatives.

Statement of Cash Flows

For purposes of reporting cash flows in the financial statements, the Company considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, interest bearing accounts with other banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Stock-Based Compensation

The Company grants stock options, restricted stock units, and other equity awards to purchase its common stock to certain key officers/employees and directors. Stock options are for a fixed number of shares with an exercise price equal to the fair value of the shares at the grant date. The fair value of stock options is determined using the Black-Scholes model. The fair value of restricted stock units when granted is the fair value of the stock on the grant date. Stock-based compensation expense is recognized in the Consolidated Statements of Operations on a straight-line basis over the vesting period. For nonqualified stock options, as compensation expense is recognized, a deferred tax asset is recorded that represents an estimate of the future tax deduction from exercise. At the time that stock-based awards are exercised, cancelled, or expire, the Company may be required to recognize an adjustment to income tax expense. For incentive stock options, the Company does not recognize an income tax benefit related to compensation expense in the period incurred or when exercised, unless there is a disqualifying disposition. The Company recognizes forfeitures of stock-based awards as they occur.

Fair Value

US GAAP requires the use of fair values in determining the carrying values of certain assets and liabilities, as well as for specific disclosures. Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between willing market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which those assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities.

Individual fair value estimates are classified on a three-tiered scale based upon the relative reliability of the inputs used in the valuation. Fair values determined using Level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based upon Level 2 inputs, which are used when observable data exists for similar assets and liabilities. Fair values for assets and liabilities that are not actively traded in observable markets are based upon Level 3 inputs, which are considered to be unobservable.

Business Combinations

The Company applies the acquisition method of accounting for all business combinations. The acquirer is the entity that obtains control of one or more businesses in the business combination and the acquisition date is the date the acquirer achieved control. The acquirer recognizes the fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree at the acquisition date. If the fair value of assets purchased exceeded the fair value of liabilities assumed, it results in a gain on acquisition. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Generally, fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available (the "measurement period"). During the measurement period, the Company may recognize adjustments to the initial amounts recorded as if the accounting for the business combination had been completed at the acquisition date. Adjustments are typically recorded as a result of new information received after the acquisition date that is necessary to identify and measure identifiable assets acquired and liabilities assumed. In many cases, the determination of acquisition-date fair values requires management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are subjective in nature and subject to change.

Operating Segments

Accounting standards require that information be reported about a company's operating segments using a "management approach." Reportable segments are identified in these standards as those revenue producing components for which separate financial information is produced internally and which are subject to evaluation by the Chief Operating Decision Maker ("CODM"). While the CODM monitors the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable segment.

The Company's CODM is the chief executive officer. The segment measure of profit or loss is consolidated net income according to the Consolidated Statements of Operations, the measure of segment assets is total assets of the consolidated company according to the Consolidated Balance Sheets, and the accounting policies of the segment are the same as those described in the Consolidated Financial Statements within Note 1. The CODM monitors budgeted to actual results of net income to assess the company's performance, to make decisions on strategic initiatives, and to establish management's compensation. The segment's revenues are primarily derived from retail and commercial banking products, and investment income.

Reclassifications

Certain captions and amounts in the 2023 Consolidated Financial Statements were reclassified to conform with the 2024 presentation. These reclassifications had no effect on the net results of operations or shareholders' equity.

Accounting Pronouncements Adopted in 2024

The Company's common stock is quoted on OTCQX, (Ticker: COSO), and as a result, the Company is classified as a public business entity for the purposes of adopting new accounting pronouncements. The table below summarizes Accounting Standard Updates ("ASU") which update various topics of the Accounting Standards Codification ("ASC") recently issued by the Financial Accounting Standards Board ("FASB") that could have a material effect on the Company's financial statements.

In December 2024, the Company adopted ASU 2023-07, Segment Reporting (Topic 280): *Improvements to Reportable Segment Disclosures*, which expands the disclosures required by public entities for reportable segments, thereby responding to stakeholders' requests for more detailed information about expenses within each reportable segment. The expanded disclosures now require public entities to disclose significant expenses for reportable segments in both interim and in annual reporting periods, while entities with only a single reportable segment must now provide all segment disclosures required both in ASC 280, *Segment Reporting*, and under the amendments in ASU 2023-07. The adoption of ASU 2023-07 did not have a material impact on the Company's Consolidated Financial Statements.

Accounting Pronouncements Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU enhances the transparency and decision usefulness of income tax disclosures for investors, lenders, creditors, and other allocators of capital (collectively, "investors"). These new enhancements are meant to better (1) understand an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities, (2) assess income tax information that affects cash flow forecasts and capital allocation decisions, and (3) identify potential opportunities to increase future cash flows. For public business entities, these amendments are effective for annual periods beginning after December 15, 2024, with early adoption permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments should be applied on a prospective basis and retrospective application is permitted. The adoption of this standard is not expected to have a material effect on the Company's Consolidated Financial Statements.

The Company has further evaluated other Accounting Standards Updates issued during 2024 but does not expect Updates other than those summarized above to have a material impact on the Consolidated Financial Statements.

NOTE 2 — INVESTMENT SECURITIES

The amortized cost and estimated fair values of securities available-for-sale along with allowance for credit losses, gross unrealized gains and losses at December 31, 2024 and 2023 are summarized in the tables below:

	2024				
(In thousands of dollars)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasuries	$ 5,990	$ -	$ -	$ 378	$ 5,612
Municipal obligations	61,401	-	37	8,367	53,071
Mortgage-backed securities	181,242	-	211	15,361	166,092
Asset-backed securities	46,775	-	384	219	46,940
Corporate debt securities	64,264	-	963	1,675	63,552
Total securities available-for-sale	$ 359,672	$ -	$ 1,595	$ 26,000	$ 335,267

	2023				
(In thousands of dollars)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasuries	$ 53,954	$ -	$ -	$ 1,946	$ 52,008
Municipal obligations	71,160	-	287	8,563	62,884
Mortgage-backed securities	166,112	-	290	17,066	149,336
Asset-backed securities	55,874	-	337	547	55,664
Corporate debt securities	37,520	-	134	2,750	34,904
Total securities available-for-sale	$ 384,620	$ -	$ 1,048	$ 30,872	$ 354,796

The following is a summary of maturities of AFS securities as of December 31, 2024. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without penalty. Mortgaged-backed securities are not presented by maturity date because pay-downs are expected before contractual maturity dates.

(In thousands of dollars)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,449	$ 2,489
Due after one year but within five years	34,772	34,205
Due after five years but within ten years	84,009	79,707
Due after ten years	57,200	52,774
Mortgage-backed securities	181,242	166,092
Total	$ 359,672	$ 335,267

The following table shows securities in unrealized loss position for which ACL has not been recorded and the length of time they were in continuous loss positions as at December 31, 2024:

	Less than Twelve months		Twelve months or more		Total	
(In thousands of dollars)	Estimated Fair Value	Unrealized losses	Estimated Fair Value	Unrealized losses	Estimated Fair Value	Unrealized losses
U.S. Treasuries	$ -	$ -	$ 5,612	$ 378	$ 5,612	$ 378
Municipal obligations	-	-	52,299	8,367	52,299	8,367
Mortgage-backed securities	36,742	610	108,435	14,751	145,177	15,361
Asset-backed securities	-	-	11,141	219	11,141	219
Corporate debt securities	1,245	5	20,801	1,670	22,046	1,675
Total temporarily impaired securities	$ 37,987	$ 615	$ 198,288	$ 25,385	$ 236,275	$ 26,000

The following table shows securities in unrealized loss position for which ACL has not been recorded and the length of time they were in continuous loss positions as at December 31, 2023:

	Less than Twelve months		Twelve months or more		Total	
(In thousands of dollars)	Estimated Fair Value	Unrealized losses	Estimated Fair Value	Unrealized losses	Estimated Fair Value	Unrealized losses
U.S. Treasuries	$ -	$ -	$ 52,008	$ 1,946	$ 52,008	$ 1,946
Municipal obligations	2,124	180	58,787	8,383	60,911	8,563
Mortgage-backed securities	2,382	4	135,771	17,062	138,153	17,066
Asset-backed securities	-	-	39,133	547	39,133	547
Corporate debt securities	13,217	281	17,497	2,469	30,714	2,750
Total temporarily impaired securities	$ 17,723	$ 465	$ 303,196	$ 30,407	$ 320,919	$ 30,872

AFS securities are recorded at fair market value. Of the 148 securities in an unrealized loss position at December 31, 2024, 18 securities were in a continuous loss position for less than twelve months, and 130 securities were in a continuous loss position for twelve months or more. The Company believes, based on industry analyst reports, credit ratings and/or government guarantees, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, these losses are not considered credit related required to be charged to the allowance.

Based on the results of management's review at December 31, 2024, none of the unrealized loss was attributable to credit impairment and all $26.0 million in unrealized loss was determined to be from factors other than credit. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are credit related impaired, which would require a charge to earnings in such periods.

The table below presents a summary of sales activities in the Company's investment securities available-for-sale portfolio:

	For the Years Ended December 31,	
(In thousands of dollars)	2024	2023
Gross gains on sales of securities	$ 47	$ -
Gross losses on sales of securities	(3,512)	(517)
Net realized losses on sales of securities available-for-sale	$ (3,465)	$ (517)
Sales proceeds	$ 39,100	$ 11,987

At December 31, 2024 investment securities with a book value of $59.2 million and a market value of $51.8 million were pledged to secure federal funds lines of credit, Federal Reserve Bank Discount Window credit availability, and municipal deposits. At December 31, 2023, investment securities with a book value of $204.0 million and a market value of $184.2 million were pledged to secure federal funds lines of credit, Federal Reserve Bank Discount Window and BFTP credit availability.

NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES

Composition of Loan Portfolio

The Company engages in a full complement of lending activities, including commercial real estate loans ("CRE"), construction loans, commercial and industrial loans ("C&I"), and consumer purpose loans. While risk of loss in the Company's portfolio is primarily tied to the credit quality of the various borrowers, risk of loss may increase due to factors beyond the Company's control, such as local, regional and/or national economic downturns. General conditions in the real estate market may also impact the relative risk in the real estate portfolio. The following is a brief description of the major loans receivable categories:

Commercial Loans

Acquisition, Development, and Construction ("ADC") – ADC loans include both loans and credit lines for the purpose of purchasing, carrying, and developing land into residential subdivisions or various types of commercial developments, such as industrial, hospitality, warehouse, retail, office, and multi-family. This category also includes loans and credit lines for construction of residential developments, multi-family buildings, and commercial buildings. The Company generally engages in ADC lending primarily in local markets served by its branches, and through our homebuilder finance and government guaranteed lending lines of business. The Company recognizes that risks are inherent in the financing of commercial real estate development and construction. These risks include location, market conditions and price volatility, change in interest rates, demand for developed land, lots and buildings, desirability of features and styling of completed developments and buildings, competition from other developments and builders, traffic patterns, remote work patterns, governmental jurisdiction, tax structure, availability of utilities, roads, public transportation and schools, availability of permanent financing for homebuyers, zoning, environmental restrictions, lawsuits, economic and business cycle, labor, and reputation of the builder or developer.

Each ADC loan is underwritten to address: (i) the desirability of the project, its market viability and projected absorption period; (ii) the creditworthiness of the borrower and the guarantor as to liquidity, cash flow and assets available to ensure performance of the loan; (iii) equity contribution to the project; (iv) the developer's experience and success with similar projects; and (v) the value of the collateral. ADC loans are inspected periodically to ensure that the project is on schedule and eligible for requested draws. Inspections may be performed by construction inspectors hired by the Company or by appropriate loan officers and are conducted periodically to monitor the progress of a particular project. These inspections may also include discussions with project managers and engineers. Rising interest rates and the potential for slowing economic conditions could negatively impact borrowers' and guarantors' ability to repay their debt which could make more of the Company's loans collateral-dependent.

Income Producing CRE – Income Producing CRE loans include loans to finance income-producing commercial and multi-family properties. Lending in this category is generally limited to properties located in the Company's market area with only limited exposure to properties located elsewhere but owned by in-market borrowers. Loans in this category include loans for neighborhood retail centers, medical and professional offices, single retail stores, warehouses and apartments leased generally to local businesses and residents. The underwriting of these loans takes into consideration the occupancy, rental rates, and local market demand as well as the financial health of the borrower. The primary risk associated with loans secured with income-producing property is the inability of that property to produce adequate cash flow to service the debt. High unemployment, significant increases to interest rates, generally weak economic conditions and/or an oversupply in the market may result in our customers having difficulty achieving adequate occupancy and/or rental rates. Payments on such loans are often dependent on successful operation or management of the properties.

Owner-Occupied CRE – Owner-occupied loans include loans secured by business facilities to finance business operations, equipment and owner-occupied facilities primarily for small and medium-sized enterprises. These include both lines of credit and term loans which are amortized over the useful life of the assets financed. Personal guarantees, if applicable, are generally required for these loans. The Company recognizes that risk from economic cycles, pandemics, government regulation, supply-chain disruptions, product innovations or obsolescence, operational errors, lawsuits, natural disasters, losses due to theft or embezzlement, health or loss of key personnel, or competitive situations may adversely affect the scheduled repayment of business loans.

Senior Housing – Senior housing loans support senior adults facilities, generally restricted for adults over the age of 55 years old. These types of loans include senior apartments, independent living communities, assisted living and memory care communities, nursing homes or skilled nursing facilities, and continuing care retirement communities. The Company recognizes that risk from high resident turnover, pandemics, government regulation, operator risk, increases in acuity, availability and cost of qualified staffing resources, technology risk, and other risks such as liability, insurance, reimbursement and regulatory changes may impact repayment of these loans. Underwriting focuses primarily on operator quality and business operations rather than income producing CRE property quality metrics.

Commercial and Industrial – C&I loans are loans and lines of credit to finance business operations, equipment and other non-real estate collateral primarily for small and medium-sized enterprises. These include both lines of credit and term loans which are amortized over the useful life of the assets financed. Personal and/or corporate guarantees are generally obtained where available and prudent. The Company recognizes that risk from economic cycles, commodity prices, pandemics, government regulation, supply-chain disruptions, product innovations or obsolescence, operational errors, lawsuits, natural disasters, losses due to theft or embezzlement, health or loss of key personnel or competitive situations may adversely affect the scheduled repayment of business loans.

<u>Retail loans</u>

Marine Vessels – Marine vessel loans are a type of consumer loan used to finance the purchase of a boat or another marine craft. Functioning similarly to auto loans and personal loans, these installment loans come with a repayment term, fixed monthly payments and variable-or-fixed interest rates. These loans are underwritten in accordance with the Company's general loan policies and procedures and are generally secured with title or preferred ships' mortgage on the marine vessel. The Company recognizes that risk from economic cycles, pandemics, government regulation, natural disasters, losses due to theft, or changes to customer's ability to meet the scheduled repayment of marine vessel. At December 31, 2024, and 2023, there were $405 thousand and $539 thousand of repossessed marine assets, respectively. There were $67 thousand and $91 thousand of repossessed asset write-downs during the years ended December 31, 2024 and 2023, respectively.

Residential Mortgages – Residential mortgages are first or second-lien loans secured by a primary residence or second home. This category includes permanent mortgage financing, construction loans to individual consumers, and home equity lines of credit. The loans are generally secured by properties located within the local market area of the Bank's retail footprint which originates and services the loan. These loans are underwritten in accordance with the Company's general loan policies and procedures which require, among other things, proper documentation of each borrower's financial condition, satisfactory credit history, and property value. In addition to loans originated through the Company's branches, the Company originates and services residential mortgages sold in the secondary market which are underwritten and closed pursuant to investor and agency guidelines. At December 31, 2024 and 2023, there were $164 thousand and $377 thousand of residential mortgage loans in process of foreclosure, respectively. Additionally, the Company held $864 thousand foreclosed residential properties at December 31, 2024. There were no foreclosed residential properties at December 31, 2023.

Cash Value Life Insurance Line of Credit ("CVLI") – Cash value life insurance encompasses multiple types of life insurance that contain a cash value account. This cash value component typically earns interest or other investment gains and grows tax-deferred. CVLI loans are generally lines of credit ("LOC") secured by cash value life insurance of the debtor and can be originated for personal or business purposes. Upon the delinquency of the loan or lapse of an insurance policy premium payment, the Company pursues liquidation of the policy cash value in order to satisfy the loan.

Other Consumer – Other consumer loans primarily includes unsecured student loans and other secured and unsecured consumer purpose loans. Certain loans are secured by recreational vehicles and other such tangible property. These types of loans may be impacted by negative macroeconomic conditions impacting individual consumers, such as increased unemployment, which can reduce a borrower's ability to repay the loan.

LHFS are comprised of loans acquired through mortgage warehouse lending activities and origination of mortgage loans. The Company serves as a warehouse lender by purchasing loans originated by third-party mortgage originators and selling these loans to other third-party investors. The Company also originates mortgage loans with customers through CSM and sells the majority of these loans to third-party investors.

Following is a summary of the composition of the loan portfolio at December 31, 2024:

	2024		2023	
(Dollars in thousands)	Amount	%	Amount	%
Commercial loans				
Acquisition, development and construction	$ 72,520	5.2%	$ 124,406	8.8%
Income producing CRE	321,558	22.8	264,043	18.6
Owner-occupied CRE	94,573	6.7	92,007	6.5
Senior housing	234,081	16.6	250,593	17.7
Commercial and industrial	141,626	10.0	139,795	9.8
Total commercial loans	864,358	61.3	870,844	61.4
Retail loans				
Marine vessels	263,657	18.6	266,197	18.8
Residential mortgages	174,099	12.4	146,220	10.3
Cash value life insurance LOC	86,844	6.2	112,457	7.9
Other consumer	20,485	1.5	22,707	1.6
Total retail loans	545,085	38.7	547,581	38.6
Total gross LHFI, net of unearned income	1,409,443	100.0%	1,418,425	100.0%
Less allowance for credit losses	(17,118)		(15,465)	
LHFI, net	$ 1,392,325		$ 1,402,960	
LHFS	$ 174,033		$ 82,125	

Credit Quality Indicators

The Company monitors the credit quality of its commercial loan portfolio using internal credit risk ratings. These credit risk ratings are based upon established regulatory guidance and are assigned upon initial approval of credit to borrowers. Credit risk ratings are updated periodically after the initial assignment or whenever management becomes aware of information affecting the borrowers' ability to fulfill their obligations. The Company utilizes the following categories of credit grades to evaluate its commercial loan portfolio:

Pass — Loans classified as pass are higher quality loans that do not fit any of the other categories below.

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 Company's credit position at some future date.

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 Company 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 possibility of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the credit quality of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. The Company had no loans rated Doubtful at December 31, 2024 or 2023.

The Company monitors the credit quality of its retail portfolio based primarily on payment activity and credit scores. Payment activity is the primary factor considered in determining whether a retail loan should be classified as nonperforming. Retail loans are considered to be nonperforming if they are on nonaccrual status or if they are 90 days past due or greater.

The following table presents the risk category of term loans on amortized cost basis and, for 2024, gross charge-offs by vintage year as of December 31, 2024:

	Amortized Cost Basis by Origination Year								
(In thousands of dollars)	2024	2023	2022	2021	2020	Prior	Revolvers	Revolvers Converted to Term	Total
Commercial loans									
Acquisition, development and construction									
Pass	$ 56,157	$ 12,929	$ 2,923	$ 8	$ -	$ 503	$ -	$ -	$ 72,520
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total acquisition, development and construction	$ 56,157	$ 12,929	$ 2,923	$ 8	$ -	$ 503	$ -	$ -	$ 72,520
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income producing CRE									
Pass	$ 41,441	$ 54,468	$ 123,767	$ 57,156	$ 28,306	$ 16,006	$ 2	$ -	$ 321,146
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	412	-	-	412
Total income producing	$ 41,441	$ 54,468	$ 123,767	$ 57,156	$ 28,306	$ 16,418	$ 2	$ -	$ 321,558
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Owner-occupied CRE									
Pass	$ 4,400	$ 9,803	$ 19,153	$ 26,183	$ 15,831	$ 12,520	$ 16	$ -	$ 87,906
Special mention	-	-	-	-	-	-	-	-	-
Substandard	1,825	-	3,996	-	-	846	-	-	6,667
Total owner occupied	$ 6,225	$ 9,803	$ 23,149	$ 26,183	$ 15,831	$ 13,366	$ 16	$ -	$ 94,573
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Senior housing									
Pass	$ 43,372	$ 24,428	$ 80,881	$ 31,613	$ 9,789	$ -	$ -	$ -	$ 190,083
Special mention	-	-	-	17,532	-	7,494	-	-	25,026
Substandard	-	-	-	13,903	-	5,069	-	-	18,972
Total senior housing	$ 43,372	$ 24,428	$ 80,881	$ 63,048	$ 9,789	$ 12,563	$ -	$ -	$ 234,081
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and industrial									
Pass	$ 41,292	$ 34,052	$ 12,364	$ 19,206	$ 1,472	$ 6,400	$ 18,811	$ 3,281	$ 136,878
Special mention	-	-	-	36	-	-	-	-	36
Substandard	-	-	-	283	-	2,626	69	1,734	4,712
Total non-real estate	$ 41,292	$ 34,052	$ 12,364	$ 19,525	$ 1,472	$ 9,026	$ 18,880	$ 5,015	$ 141,626
Current period gross charge-offs	$ -	$ 87	$ 62	$ -	$ -	$ -	$ -	$ -	$ 149
Retail loans									
Marine vessels									
Performing	$ 48,640	$ 74,645	$ 95,768	$ 21,729	$ 5,690	$ 17,185	$ -	$ -	$ 263,657
Nonperforming	-	-	-	-	-	-	-	-	-
Total marine vessels	$ 48,640	$ 74,645	$ 95,768	$ 21,729	$ 5,690	$ 17,185	$ -	$ -	$ 263,657
Current period gross charge-offs	$ -	$ 36	$ -	$ -	$ -	$ -	$ -	$ -	$ 36
Residential mortgages									
Performing	$ 19,067	$ 29,485	$ 49,850	$ 27,362	$ 12,472	$ 17,104	$ 18,292	$ 202	$ 173,834
Nonperforming	-	-	-	-	-	164	-	101	265
Total residential mortgages	$ 19,067	$ 29,485	$ 49,850	$ 27,362	$ 12,472	$ 17,268	$ 18,292	$ 303	$ 174,099
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash value life insurance LOC									
Performing	$ -	$ -	$ -	$ -	$ -	$ -	$ 83,751	$ 3,093	$ 86,844
Nonperforming	-	-	-	-	-	-	-	-	-
Total cash value life insurance LOC	$ -	$ -	$ -	$ -	$ -	$ -	$ 83,751	$ 3,093	$ 86,844
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ 47	$ -	$ 47
Other consumer									
Performing	$ 1,921	$ 1,995	$ 83	$ 1,666	$ 2,898	$ 11,414	$ 465	$ -	$ 20,442
Nonperforming	-	-	-	-	-	43	-	-	43
Total other consumer	$ 1,921	$ 1,995	$ 83	$ 1,666	$ 2,898	$ 11,457	$ 465	$ -	$ 20,485
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 53	$ -	$ -	$ 53

The following table presents the risk category of term loans on amortized cost basis and, for 2023, gross charge-offs by vintage year as of December 31, 2023:

	Amortized Cost Basis by Origination Year								
(In thousands of dollars)	2023	2022	2021	2020	2019	Prior	Revolvers	Revolvers Converted to Term	Total
Commercial loans									
Acquisition, development and construction									
Pass	$ 41,501	$ 74,714	$ 7,618	$ -	$ 29	$ 544	$ -	$ -	$ 124,406
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total acquisition, development and construction	$ 41,501	$ 74,714	$ 7,618	$ -	$ 29	$ 544	$ -	$ -	$ 124,406
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Income producing CRE									
Pass	$ 51,322	$ 81,105	$ 71,495	$ 31,446	$ 9,479	$ 17,212	$ 210	$ 1,235	$ 263,504
Special mention	-	-	-	-	-	79	-	-	79
Substandard	-	-	-	-	-	460	-	-	460
Total income producing	$ 51,322	$ 81,105	$ 71,495	$ 31,446	$ 9,479	$ 17,751	$ 210	$ 1,235	$ 264,043
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 82	$ -	$ -	$ 82
Owner-occupied CRE									
Pass	$ 11,747	$ 14,452	$ 25,270	$ 17,132	$ 9,979	$ 6,935	$ 38	$ 29	$ 85,582
Special mention	-	432	-	-	-	-	-	-	432
Substandard	-	3,079	-	-	-	2,914	-	-	5,993
Total owner occupied	$ 11,747	$ 17,963	$ 25,270	$ 17,132	$ 9,979	$ 9,849	$ 38	$ 29	$ 92,007
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Senior housing									
Pass	$ 36,780	$ 90,770	$ 69,604	$ 17,075	$ -	$ -	$ -	$ -	$ 214,229
Special mention	-	-	20,419	-	5,072	-	-	-	25,491
Substandard	-	-	10,873	-	-	-	-	-	10,873
Total senior housing	$ 36,780	$ 90,770	$ 100,896	$ 17,075	$ 5,072	$ -	$ -	$ -	$ 250,593
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and industrial									
Pass	$ 57,632	$ 16,185	$ 24,905	$ 2,574	$ 3,472	$ 5,639	$ 22,330	$ 1,944	134,681
Special mention	-	102	-	-	-	-	-	-	102
Substandard	-	-	301	-	2,577	257	1,836	41	5,012
Total non-real estate	$ 57,632	$ 16,287	$ 25,206	$ 2,574	$ 6,049	$ 5,896	$ 24,166	$ 1,985	$ 139,795
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 343	$ -	$ -	$ 343
Retail loans									
Marine vessels									
Performing	$ 96,212	$ 115,858	$ 29,154	$ 6,890	$ 6,148	$ 11,746	$ -	$ -	$ 266,008
Nonperforming	-	189	-	-	-	-	-	-	189
Total marine vessels	$ 96,212	$ 116,047	$ 29,154	$ 6,890	$ 6,148	$ 11,746	$ -	$ -	$ 266,197
Current period gross charge-offs	$ -	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ 5
Residential mortgages									
Performing	$ 21,439	$ 41,137	$ 30,933	$ 13,702	$ 2,299	$ 18,879	$ 17,028	$ 457	145,874
Nonperforming	-	-	-	-	-	346	-	-	346
Total residential mortgages	$ 21,439	$ 41,137	$ 30,933	$ 13,702	$ 2,299	$ 19,225	$ 17,028	$ 457	$ 146,220
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 194	$ -	$ -	$ 194
Cash value life insurance LOC									
Performing	$ -	$ -	$ -	$ -	$ -	$ -	107,599	4,858	112,457
Nonperforming	-	-	-	-	-	-	-	-	-
Total cash value life insurance LOC	$ -	$ -	$ -	$ -	$ -	$ -	$ 107,599	$ 4,858	$ 112,457
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other consumer									
Performing	$ 3,589	$ 106	$ 1,921	$ 3,558	$ 7,115	$ 5,937	$ 481	$ -	22,707
Nonperforming	-	-	-	-	-	-	-	-	-
Total other consumer	$ 3,589	$ 106	$ 1,921	$ 3,558	$ 7,115	$ 5,937	$ 481	$ -	$ 22,707
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 212	$ -	$ -	$ 212

Nonaccrual and Past Due Loans

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as nonaccrual is subsequently applied to principal until the loans are returned to accrual status. The Company's loan policy states that a nonaccrual loan may be returned to accrual status when (i) none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest, or (ii) it otherwise becomes well secured and in the process of collection. Restoration to accrual status on any given loan must be supported by a well-documented credit evaluation of the borrower's financial condition and the prospects for full repayment, approved by the Company's Chief Credit Officer. Past due loans are loans whose principal or interest is past due 30 days or more.

The following table presents a summary of past due and nonaccrual loans as of December 31, 2024:

		Loans Past Due					
(In thousands of dollars)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More and Accruing	Nonaccrual	Total Past Due and Nonaccrual	Total Loans Receivable
Acquisition, development and construction	$ 72,520	$ -	$ -	$ -	$ -	$ -	$ 72,520
Income producing CRE	321,146	-	-	-	412	412	321,558
Owner-occupied CRE	91,148	-	-	-	3,425	3,425	94,573
Senior housing	227,511	-	-	-	6,570	6,570	234,081
Commercial and industrial	137,330	5	-	6	4,285	4,296	141,626
Marine vessels	263,657	-	-	-	-	-	263,657
Residential mortgages	172,525	1,309	-	-	265	1,574	174,099
Cash value life insurance LOC	86,844	-	-	-	-	-	86,844
Other consumer	19,996	325	121	43	-	489	20,485
Total	$ 1,392,677	$ 1,639	$ 121	$ 49	$ 14,957	$ 16,766	$ 1,409,443

The following table presents a summary of past due and nonaccrual loans as of December 31, 2023:

		Loans Past Due					
(In thousands of dollars)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More and Accruing	Nonaccrual	Total Past Due and Nonaccrual	Total Loans Receivable
Acquisition, development and construction	$ 124,406	$ -	$ -	$ -	$ -	$ -	$ 124,406
Income producing CRE	263,283	300	-	-	460	760	264,043
Owner-occupied CRE	88,928	-	-	-	3,079	3,079	92,007
Senior housing	250,593	-	-	-	-	-	250,593
Commercial and industrial	139,492	39	-	-	264	303	139,795
Marine vessels	266,008	-	-	-	189	189	266,197
Residential mortgages	144,936	938	-	-	346	1,284	146,220
Cash value life insurance LOC	112,457	-	-	-	-	-	112,457
Other consumer	22,521	186	-	-	-	186	22,707
Total	$ 1,412,624	$ 1,463	$ -	$ -	$ 4,338	$ 5,801	$ 1,418,425

Individually Analyzed Collateral-Dependent Loans

As of December 31, 2024, there were $15.0 million of individually analyzed collateral-dependent loans which are primarily secured by real estate, equipment and receivables. All of the Company's nonaccrual loans at December 31, 2024 are collateral-dependent. The following table presents an analysis of nonaccrual loans that are also collateral-dependent financial assets and related allowance for credit losses:

(In thousands of dollars)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Allowance for Credit Losses	Nonaccrual Interest Income Recognized
Income producing CRE	$ 412	$ -	$ 412	$ -	$ -
Owner-occupied CRE	3,425	-	3,425	-	-
Senior housing	-	6,570	6,570	1,703	-
Commercial and industrial	2,057	2,228	4,285	36	134
Marine vessels	-	-	-	-	3
Residential mortgages	164	101	265	3	6
Cash value life insurance LOC	-	-	-	-	5
Total	$ 6,058	$ 8,899	$ 14,957	$ 1,742	$ 148

As of December 31, 2023, there were $4.3 million of individually analyzed collateral-dependent loans which are primarily secured by real estate, equipment and receivables. All of the Company's nonaccrual loans at December 31, 2023, are collateral-dependent. The following table presents an analysis of nonaccrual loans that are also collateral-dependent financial assets and related allowance for credit losses:

(In thousands of dollars)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Allowance for Credit Losses	Nonaccrual Interest Income Recognized
Income producing CRE	$ -	$ 460	$ 460	$ 3	$ 5
Owner-occupied CRE	-	3,079	3,079	19	241
Senior housing	-	-	-	-	398
Commercial and industrial	223	41	264	177	50
Marine vessels	189	-	189	-	-
Residential mortgages	346	-	346	-	12
Total	$ 758	$ 3,580	$ 4,338	$ 199	$ 706

Modifications to Borrowers Experiencing Financial Difficulty

The Company periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan.

The following table shows the amortized cost basis of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted as of December 31, 2024:

(Dollars in thousands)	Payment deferral	Combination of term extension and payment delay	Combination of term extension and interest rate reduction	Total modified loans	Percent of total loan class
Commercial loans					
Senior housing	$ -	$ 9,942	$ -	$ 9,942	4.2%
Commercial and industrial	2,228	-	1,734	3,962	2.8%
Total	$ 2,228	$ 9,942	$ 1,734	$ 13,904	1.0%

The Company had no unfunded commitments to borrowers experiencing financial difficulty for which the Company has modified their loans.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the twelve months ended December 31, 2024:

Loan type	Financial effect
Payment deferral	
Commercial and industrial	Provided one year of principal payment deferral (interest only).
Combination of term extension and payment delay	
Senior housing	Provided weighted average term extension of 9 months and either deferral of principal payments (interest only) or deferral of full interest payments.
Combination of term extension and interest rate reduction	
Commercial and industrial	Provided 36-month extension broken into three 12-month extension options, and reduced interest rate by 100 bps in the first 12 months and by 50 bps in the second 12 months.

The Company monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months:

		Loans Past Due			
(In thousands of dollars)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total
Commercial real estate					
Senior housing	$ 9,942	$ -	$ -	$ -	$ 9,942
Commercial and industrial	3,962	-	-	-	3,962
Total	$ 13,904	$ -	$ -	$ -	$ 13,904
Total nonaccrual loans included above	$ 10,532	$ -	$ -	$ -	$ 10,532

At December 31, 2024, there were no financing receivables that had a payment default and were modified in the 12 months before default to borrowers experiencing financial difficulty.

Related Party Loans

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability.

The following table presents a roll forward of the related party loans as of December 31, 2024 and 2023:

	For the Years Ended December 31,	
(In thousands of dollars)	2024	2023
Balance, beginning of year	$ 339	$ 526
New loans	-	-
Less loan repayments	(9)	(187)
Balance, end of year	$ 330	$ 339

None of the related party loans were classified as nonaccrual, past due, restructured, or potential problem loans at December 31, 2024 or 2023.

Allowance for Credit Losses - Loans

The allowance for credit losses represents an allowance for expected losses over the remaining contractual life of the assets adjusted for prepayments. The contractual term does not consider extensions, renewals or modifications. The Company segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio.

The following table is a summary of the activity within the allowance for credit losses during the years ended December 31, 2024 and 2023:

(In thousands of dollars)	ACL- Loans	ACL-Unfunded Commitments	Total ACL
Year Ended December 31, 2024			
Balances - December 31, 2023	$ 15,465	$ 3,916	$ 19,381
Charge-offs	(285)	-	(285)
Recoveries	189	-	189
Provision (release) for credit losses	1,749	(1,196)	553
Balances - December 31, 2024	$ 17,118	$ 2,720	$ 19,838
Year Ended December 31, 2023			
Balances - December 31, 2022	$ 12,362	$ -	$ 12,362
Impact of adopting ASC 2016-13	1,666	4,519	6,185
Balances - January 1, 2023	14,028	4,519	18,547
Charge-offs	(836)	-	(836)
Recoveries	127	-	127
Provision (release) for credit losses	2,146	(603)	1,543
Balances - December 31, 2023	$ 15,465	$ 3,916	$ 19,381

The following table presents a summary of the Company's allowance, by loan category for credit losses for the year ended December 31, 2024:

(In thousands of dollars)	Beginning Balance	Charge-offs	Recoveries	Provision (Release)	Ending Balance
Year Ended December 31, 2024					
Commercial loans					
Acquisition, development, and construction	$ 3,318	$ -	$ -	$ (2,130)	$ 1,188
Income producing CRE	5,067	-	-	800	5,867
Owner-occupied CRE	628	-	53	(138)	543
Senior housing	1,342	-	-	3,234	4,576
Commercial and industrial	1,079	(149)	67	(246)	751
Total commercial loans	11,434	(149)	120	1,520	12,925
Retail loans					
Marine vessels	1,277	(36)	-	447	1,688
Residential mortgages	2,167	-	15	(167)	2,015
Cash value life insurance LOC	122	(47)	-	13	88
Other consumer	465	(53)	54	(64)	402
Total retail loans	4,031	(136)	69	229	4,193
Total allowance for funded loans	15,465	(285)	189	1,749	17,118
Reserve for losses on unfunded loan commitments	3,916	-	-	(1,196)	2,720
Total ACL	$ 19,381	$ (285)	$ 189	$ 553	$ 19,838

The following table presents a summary of the Company's allowance, by loan category for credit losses for the year ended December 31, 2023:

(In thousands of dollars)	Balance upon Adoption of ASU 2016-13	Charge-offs	Recoveries	Provision (Release)	Ending Balance
Year Ended December 31, 2023					
Commercial loans					
Acquisition, development, and construction	$ 1,855	$ -	$ -	$ 1,463	$ 3,318
Income producing CRE	4,891	(82)	17	241	5,067
Owner-occupied CRE	832	-	-	(204)	628
Senior housing	994	-	-	348	1,342
Commercial and industrial	1,264	(343)	20	138	1,079
Total commercial loans	9,836	(425)	37	1,986	11,434
Retail loans					
Marine vessels	884	(5)	-	398	1,277
Residential mortgages	2,676	(194)	38	(353)	2,167
Cash value life insurance LOC	153	-	-	(31)	122
Other consumer	479	(212)	52	146	465
Total retail loans	4,192	(411)	90	160	4,031
Total allowance for funded loans	14,028	(836)	127	2,146	15,465
Reserve for losses on unfunded loan commitments	4,519	-	-	(603)	3,916
Total ACL	$ 18,547	$ (836)	$ 127	$ 1,543	$ 19,381

NOTE 4 — PREMISES, FURNITURE AND EQUIPMENT

Premises, furniture and equipment owned and utilized in the operations of the Company are summarized as follows as of December 31:

(In thousands of dollars)	2024	2023
Buildings and improvements	$ 12,167	$ 12,071
Land	4,023	4,023
Furniture and equipment	4,673	4,302
Leasehold and land improvements	4,998	4,315
Software	1,276	1,033
Vehicles	19	19
Construction in progress	143	122
Total	27,299	25,885
Less: accumulated depreciation and amortization	(9,503)	(8,174)
Premises, furniture and equipment, net	$ 17,796	$ 17,711

Depreciation expense was $1.2 million for each of the years ended December 31, 2024 and 2023. Software amortization expense for the years ended December 31, 2024 and 2023 was $97 thousand and $68 thousand, respectively.

NOTE 5 — OTHER ASSETS

Other assets consisted of the following as of December 31:

(In thousands of dollars)	2024	2023
Accrued interest receivable	$ 9,706	$ 9,648
Derivative assets	7,717	8,737
Right-of-use assets	4,036	3,888
Taxes receivable, net	2,791	2,849
Solar tax equity investments	2,666	783
Prepaid expenses	1,705	1,693
Other real estate owned	864	-
Accounts receivable	292	10,348
Other	3,052	3,308
Total other assets	$ 32,829	$ 41,254

NOTE 6 — GOODWILL AND INTANGIBLE ASSETS

The Company's carrying amount of goodwill at December 31, 2024, and 2023 and changes to the goodwill are summarized as follows:

(In thousands of dollars)	2024	2023
Beginning of year	$ 4,708	$ 4,708
Acquired goodwill	-	-
Impairment	-	-
End of year	$ 4,708	$ 4,708

Goodwill was recognized as a result of the Company's acquisition of First Citizens Financial Corporation in 2018. As of October 1, 2024, the Company performed its annual goodwill impairment evaluation conducting a comprehensive business valuation analysis using a quantitative method for determining the fair value. The Company determined the fair value of our reporting unit exceeded its carrying amount and that goodwill was not impaired. There are no events that have occurred since the last annual goodwill impairment assessment that would necessitate an interim goodwill impairment. No goodwill was recognized in conjunction with the acquisition of Cornerstone Bank in 2021.

The Company also had other intangible assets at December 31, 2024 and 2023, presented in the following table:

	2024			2023		
(In thousands of dollars)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Definite-lived intangible assets:						
Core deposit intangibles	$ 1,850	$ 1,409	$ 441	$ 1,850	$ 1,220	$ 630
Commercial mortgage servicing rights	3,445	2,208	1,237	3,019	1,894	1,125
Total	$ 5,295	$ 3,617	$ 1,678	$ 4,869	$ 3,114	$ 1,755

Core deposit intangibles are amortized over their estimated useful lives, which the Company determined is ten years. Amortization expense of $189 thousand and $227 thousand at December 31, 2024 and 2023, respectively, was recognized in other noninterest expense.

Commercial mortgage servicing rights arise from the sale of participating interests in government guaranteed loans to third parties where servicing is retained by the Company. These assets are amortized over the expected remaining life of the related loan. Amortization expense of $314 thousand and $544 thousand at December 31, 2024 and 2023, respectively, was recognized in other noninterest income related to these intangible assets. There was no impairment for the commercial mortgage servicing rights for the years ended December 31, 2024 and 2023.

The Company's estimated future amortization of intangible assets at December 31, 2024 is presented in the following table (in thousands of dollars):

2025	$	349
2026		294
2027		234
2028		131
2029		112
Thereafter		558
Total expected amortization	$	1,678

Contractually specified servicing fees related to commercial mortgage servicing rights of approximately $1.1 million were recognized in Other noninterest income during each of the years ended December 31, 2024, and 2023. The principal balance of loans serviced for third parties was $201.0 million and $170.2 million at December 31, 2024 and 2023, respectively.

A roll forward of each class of commercial mortgage servicing rights is presented as follows:

	For the years ended December 31,							
	2024				2023			
(In thousands of dollars)	SBA		USDA		SBA		USDA	
Beginning carrying value, net	$	697	$	428	$	840	$	462
Amortization		(241)		(73)		(450)		(94)
Servicing rights originated		134		292		307		60
Servicing rights purchased		-		-		-		-
Servicing rights sold		-		-		-		-
Impairment		-		-		-		-
Ending carrying value, net	$	590	$	647	$	697	$	428

The estimated fair value of the commercial mortgage servicing rights was $1.6 million and $1.3 million at December 31, 2024 and 2023, respectively.

NOTE 7 — DEPOSITS

At December 31, 2024, the scheduled maturities of certificates of deposit were as follows:

Maturing In	**Amount (in '000)**	
2025	$	754,997
2026		3,180
2027		670
2028		297
2029 and thereafter		57
Total	$	759,201

The Company had $275.3 million and $225.3 million in brokered deposits at December 31, 2024 and 2023, respectively. The Company also had reciprocal deposits of $131.5 million and $172.7 million at December 31, 2024 and 2023.

Time deposits that exceed the FDIC insurance limit of $250 thousand at December 31, 2024 and 2023 were estimated to be $165.6 million and $151.4 million, respectively.

At December 31, 2024 and 2023, total deposits held by the Company's related parties were $47.5 million and $13.3 million, respectively. There were no deposits held by any depositor that exceeded 5% of the total deposits.

NOTE 8 — OTHER BORROWINGS

The Company had the following other borrowings at December 31, 2024 and 2023:

	Average Interest Rate			Amount	
(Dollars in thousands)	2024	2023	Maturity Date	2024	2023
Federal Home Loan Bank of Atlanta advances:					
Fixed Rate Advance	4.43%	–	1/8/2025	$ 15,000	$ -
Fixed Rate Advance	–	5.45%	1/11/2024	$ -	$ 25,000
Daily Rate Advance	–	5.57%	12/31/2024	-	25,000
Revolving commercial line of credit, net	8.33%	8.20%	12/10/2025	11,995	23,990
Subordinated debt, net	5.95%	5.95%	9/15/2030	14,730	14,682
Total other borrowings				$ 41,725	$ 88,672

The Company had no pledged investment securities as collateral for the FHLBA advances at December 31, 2024 and 2023. The Company's FHLBA stock is also pledged to secure the borrowings. In addition, the Company has pledged blanket liens on its first mortgages 1-4 family residential loans, second mortgages 1-4 family residential loans, including open-ended loans and closed-end 1-4 family residential properties, and commercial real estate loans. The aggregate balance of identified pledgable loans totaled $162.8 million and $148.0 million at December 31, 2024 and 2023, respectively.

CSB had the ability to borrow an additional $141.8 million and $98.0 million at December 31, 2024 and 2023, respectively, from the FHLBA secured by a blanket lien on one-to-four family first mortgage loans, multifamily residential loans, and revolving, open-end loans, marketable securities or cash. FHLBA has approved borrowings up to 20% of CSB's total assets less advances outstanding. The borrowings are available by pledging collateral and purchasing additional stock in the FHLBA. All of the lines discussed above can be revoked at the lender's discretion.

On December 10, 2021, the Company ("Borrower") entered into a Loan and Security Agreement (the "Agreement") with ServisFirst Bank ("Lender"), for the Lender to extend a revolving line of credit in the maximum principal amount of $18.0 million (the "Loan") and commitment. Interest on the principal balance of the Loan from time to time outstanding was payable at a per annum rate (the "Interest Rate") equal to the greater of (i) the Prime Rate in effect from time to time; or (ii) a floor rate of three and twenty-five hundredths percent (3.25%). On November 21, 2023, the Agreement was amended and restated in its entirety to increase the maximum principal amount to $24.0 million and provided other terms and conditions. Interest on the principal balance of the loan from time to time outstanding is payable at a per annum Interest Rate equal to the greater of (i) the Prime Rate in effect from time to time; or (ii) a floor rate of five and twenty-five hundredths percent (5.25%). Each time a change to the Prime Rate occurs, the Interest Rate shall change concurrently with such change in the Prime Rate. At December 31, 2024, the Company had $12.0 million of this revolving commercial line of credit outstanding. Unamortized debt issuance costs related to this line of credit were $5 thousand at December 31, 2024, and $10 thousand at December 31, 2023.

The Company incurred $1.1 million and $1.5 million of interest expense related to the ServisFirst line of credit for the years ended December 31, 2024 and 2023, respectively.

The Company had pledged investment securities at December 31, 2024 and 2023, totaling $8.5 million and $10.1 million, respectively, as collateral for federal funds purchased. As of December 31, 2024, and 2023, the Company had unused lines of credit to purchase federal funds from unrelated banks totaling $69.5 million and $55.5 million, respectively, a portion of which is secured by investment securities. These lines of credit are available on a one-day basis for general corporate purposes. The Company had no outstanding balances under these lines of credit at December 31, 2024 and 2023.

As of December 31, 2024 the Company had an unused line of credit to borrow from the Federal Reserve Bank of Richmond discount window totaling $30.4 million, which was fully secured by investment securities. At December 31, 2023, the Company had and $184.1 million of unused lines of credit from the Federal Reserve Bank of Richmond, with $143.4 million availability under the BTFP and $40.7 million from the discount window, both fully secured by investment securities. The discount window line of credit was available on an overnight basis for general corporate purposes; the BTFP line of credit was available on a term basis for liquidity purposes. The Company had pledged investment securities at December 31, 2024 and 2023 totaling $32.1 million and $174.1 million, respectively, as collateral at the Federal Reserve Bank. As of December 31, 2024 and 2023, the Company had no outstanding balances.

On September 9, 2020, the Company issued a private placement of $15.0 million of 5.95% fixed-to-floating rate subordinated notes due 2030 (the "Notes") to certain qualified institutional buyers and institutional accredited investors (the "Private Placement"). The Notes have been structured to qualify as Tier 2 capital for regulatory capital purposes. The Notes are unsecured and have a ten-year term, maturing September 15, 2030, and bear interest at a fixed annual rate of 5.95%, payable semi-annually in arrears, for the first five years of the term. Thereafter, the interest rate will reset quarterly to an interest rate per annum equal to the then current three-month Secured Overnight Financing Rate ("Three-Month SOFR"), plus a spread of 582 basis points, payable quarterly in arrears, provided, however, that, in the event the Three-Month SOFR is less than zero, the Three-Month SOFR shall be deemed to be zero. As provided in the Notes, under specified conditions, the interest rate on the Notes during the Floating Rate Period may be determined based upon a rate other than Three-Month SOFR. The Company may redeem the Notes, in whole or in part, on any interest payment date on or after September 15, 2025, and to redeem the Notes at any time in whole upon certain other specified events. Unamortized debt issuance costs related to the subordinated debt were $270 thousand and $318 thousand at December 31, 2024 and 2023, respectively.

The Company incurred $940 thousand of interest expense related to subordinated debt for each of the years ended December 31, 2024 and 2023.

NOTE 9 — INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2024 and 2023 is summarized as follows:

(In thousands of dollars)	2024	2023
Current portion:		
Federal	$ 2,933	$ 6,656
State	425	620
	3,358	7,276
Deferred income tax (benefit) expense	1,953	(259)
Total tax expense	$ 5,311	$ 7,017

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% to income before income taxes follows:

(In thousands of dollars)	2024	2023
Tax at U.S. Statutory Rate	$ 5,715	$ 6,614
Increase (decrease) resulting from:		
State income tax, net of federal income tax effect	503	590
Stock-based compensation	16	67
Tax exempt income	9	(17)
Bank-owned life insurance	(349)	(563)
Gain on BOLI surrender	-	789
Tax credit investments	(628)	(509)
Other items, net	45	46
Total tax expense	$ 5,311	$ 7,017

The gross amounts of deferred tax assets and deferred tax liabilities at December 31, 2024 and 2023 are as follows:

(In thousands of dollars)	2024	2023
Deferred tax assets:		
Net operating loss carryforward	$ 7,134	$ 7,833
Unrealized loss on securities available-for-sale	5,691	6,960
ACL - loans	4,024	3,655
Lease liability	1,124	1,142
General business credits	-	1,126
ACL - unfunded commitments	636	917
Purchase accounting adjustments	370	758
Accrued expenses	501	697
Investments in partnerships	518	445
Stock-based compensation	506	351
Nonaccrual loan interest	265	158
Total deferred tax asset	20,769	24,042
Deferred tax liabilities:		
Unrealized gain on cash flow hedges	(924)	(1,052)
Lease right-of-use asset	(944)	(910)
Origination costs and fees	(547)	(664)
Depreciation	(146)	(93)
Prepaid expenses	(60)	(57)
Other	-	(24)
Total deferred tax liabilities	(2,621)	(2,800)
Net deferred tax asset	$ 18,148	$ 21,242

Deferred tax assets represent the future benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. After review of all positive and negative factors and potential tax planning strategies, as of December 31, 2024 and 2023, management has determined that a valuation allowance is not necessary. Management has determined that it is more likely than not that the remaining deferred tax asset at December 31, 2024 will be realized, and accordingly, has not established a valuation allowance.

The Company has federal net operating losses of $30.5 million and $33.0 million at December 31, 2024 and 2023, respectively. These net operating losses expire at various times from 2028 through 2037. The Company's ability to benefit from the use of these net operating loss carryforwards is limited annually under Section 382 of the Internal Revenue Code. The Company has state net operating losses of $20.4 million and $24.0 million at December 31, 2024 and 2023, respectively. These net operating losses expire at various times from 2028 through 2038.

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with applicable regulations. Tax returns for 2021 and subsequent years are subject to examination by taxing authorities.

NOTE 10 — LEASES

The Company has entered into several operating leases for properties for branch banking and other banking operations. The leases have various initial terms and expire on various dates. The lease agreements generally provide that the Bank is responsible for ongoing repairs and maintenance, insurance, and real estate taxes. The leases also provide for renewal options and certain scheduled increases in monthly lease payments. The Company does not consider exercise of any of these lease renewal options to be reasonably certain.

Leases with an initial term of 12 months or less are not recorded on the balance sheet. For these short-term leases, lease expense is recognized on a straight-line basis over the lease term. There were no rental expenses recorded under short-term leases for the years ended December 31, 2024 and 2023. At December 31, 2024 and 2023, the Company had no leases classified as finance leases.

At December 31, 2024 and 2023, the Company had an operating lease ROU asset of $4.0 million and $3.9 million, and an operating lease liability of $4.8 million and $4.9 million, respectively. The ROU asset and operating lease liability are recorded in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

Rental expense recorded under long-term leases for the years ended December 31, 2024 and 2023 was $1.1 million and $990 thousand, respectively.

The weighted-average remaining lease term and the weighted-average discount rate for operating leases were 6.28 years and 2.81%, respectively, at December 31, 2024.

A maturity analysis of the Company's operating lease liabilities and reconciliation of the undiscounted cash flows to the operating lease liability at December 31, 2024 is as follows (in thousands of dollars):

2025	$	987
2026		833
2027		809
2028		780
2029		600
Thereafter		1,302
Total undiscounted cash flows		5,311
Discount on cash flows		(506)
Total lease liability	$	4,805

NOTE 11 — OTHER NONINTEREST EXPENSE

A summary of the components of other noninterest expense is as follows for the years ended December 31:

(In thousands of dollars)		2024		2023
General and administrative expense	$	993	$	883
Marketing and business development		859		740
Other loan expense		518		497
Deposit related expense		386		731
Board of directors fees		318		318
Amortization expense		287		294
SBA contingency reserve		(778)		(1,848)
Other		2,011		2,127
Total other noninterest expense	$	4,594	$	3,742

NOTE 12 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not reflected in the Company’s financial statements. These commitments and contingent liabilities include various guarantees, commitments to extend credit and standby letters of credit. The Company does not anticipate any material losses as a result of these commitments and contingent liabilities.

Credit Related Commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Financial instruments where contract amounts represent credit risk as of December 31, 2024 and 2023 include:

(In thousands of dollars)	2024	2023
Commitments to extend credit	$ 460,840	$ 410,698
Letters of credit	1,223	501
Total	$ 462,063	$ 411,199

Commitments to extend credit, including unused lines of credit, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities. Collateral held for commitments to extend credit and letters of credit varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The Company maintains cash deposits with a financial institution that during the year are in excess of the insured limitation of the Federal Deposit Insurance Corporation. If the financial institution were not to honor its contractual liability, the Company could incur losses. Management is of the opinion that there is not material risk because of the financial strength of the institution.

Tax Credit Investments

The Company has invested capital in a limited partnership to obtain renewable energy tax credits generated by solar power projects. The following table summarizes the tax credit investment and equity investment as of December 31, 2024 and 2023:

(In thousands of dollars)	Balance Sheet Location	2024	2023
Carrying amount	Other assets	$ 2,666	$ 783
Amount of future funding commitments not included in carrying amount	N/A	2,721	2,462

There was $868 thousand and $598 thousand of net benefit to income tax expense from tax credit investments recognized in the provision for income taxes for the years ended December 31, 2024 and 2023, respectively.

Contingencies

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings which could have a material adverse effect on the financial position or operating results of the Company.

NOTE 13 — STOCK-BASED COMPENSATION

In 2017, the shareholders of the Company approved the CoastalSouth Bancshares, Inc. 2017 Incentive Plan ("2017 Plan") to motivate, attract and retain the services of employees, officers, and directors. At December 31, 2024, 884,750 stock options had been granted and 332,000 shares of restricted stock units had been issued under the 2017 Plan. As of December 31, 2024, the Board of Directors has reserved 1,106,500 shares of the Company's common stock for issuance pursuant to awards granted under the 2017 Plan, any or all of which may be granted as nonqualified stock options, restricted stock, restricted stock units, deferred stock units, stock appreciation rights, performance awards and other stock-based awards, or any other right or interest relating to stock or cash, granted to a Participant under the Plan. Prior to 2022, awards were also able to be granted as incentive stock options. In the event all or a portion of a stock award is canceled, terminates, expires, is forfeited or lapses for any reason, any unissued or forfeited Shares subject to the Award shares again become available for issuance pursuant to awards granted under the 2017 Plan and do not count against the maximum number of reserved shares. In addition, shares of common stock deducted or withheld to satisfy tax withholding obligations count against the number of Shares remaining available for issuance pursuant to Awards granted under the Plan, and Shares delivered by a participant to satisfy tax withholding requirements are not added to the 2017 Plan share reserve. The 2017 Plan is administered by the Compensation Committee of our Board of Directors (the "Committee"). The determination of award recipients under the 2017 Plan, and the terms of those awards, are made by the Committee. The terms of each stock-based award are indicated in an award certificate. As of December 31, 2023, there were 1,000,720 shares reserved under the 2017 Plan and in 2024, the Board of Directors approved an additional 105,780 shares to the plan bringing to the total awards to 1,106,500. At December 31, 2024, there were 50,500 remaining shares available to be awarded under the 2017 Plan.

Stock-based awards are recognized over the vesting period and reflected as salaries and employee benefits within the Consolidated Statements of Operations, which was $1.3 million and $1.1 million for the years ended December 31, 2024 and 2023, respectively.

Stock Options

The Company's stock options vest over four years of continuous service, with a majority vesting 25% on the anniversary of the grant date and a minority vesting 100% on the fourth anniversary of the grant date. The terms of all of the options are for ten years expiring on the tenth anniversary of the grant date.

The grant date fair value of stock options is determined using the Black-Scholes model. Volatility is based on a peer group of similar community banks in the southeast United States. The risk-free rate is the treasury rate that most closely relates to the expected life on the grant date.

A summary of stock option activity for the years ended December 31, 2024 and 2023 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2022	753,750	$ 13.30	$ 5.10
Granted	3,500	15.70	7.00
Exercised	-	-	-
Forfeited or Expired	(10,500)	14.26	6.36
Outstanding at December 31, 2023	746,750	$ 13.29	$ 5.09
Granted	1,500	15.80	7.81
Exercised	-	-	-
Forfeited or Expired	(11,000)	13.34	5.18
Outstanding at December 31, 2024	737,250	$ 13.30	$ 5.09

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Award Value [1]
Outstanding at December 31, 2023	746,750	$ 13.29		
Outstanding at December 31, 2024	737,250	$ 13.30	4.06	$ 6,370
Vested & exercisable at December 31, 2023	605,997	$ 13.55		
Vested & exercisable at December 31, 2024	706,250	$ 13.15	3.93	$ 6,208

[1] *Presented in thousands and considering a $21.94 market value at December 31, 2024.*

A summary of assumptions used in the valuation for stock options granted during the years ended December 31, 2024 and 2023 is below:

	2024 Black-Scholes Inputs	2023 Black-Scholes Inputs
Expected dividend yield	0.00%	0.00%
Expected volatility	46.75%	38.78% - 38.91%
Risk-free interest rate	4.05%	3.45% - 4.03%
Expected life (in years)	6.25	6.25

As of December 31, 2024 and 2023, there was $124 thousand and $378 thousand of total unrecognized compensation cost related to stock options granted under the 2017 Plan. As of December 31, 2024, the cost is expected to be recognized over a weighted-average period of 0.96 years.

Restricted Stock Units

Periodically, the Company issues restricted stock units to its directors, executive and senior officers. Compensation expense is recognized over the vesting period of the awards based upon the fair value of the stock at grant date. In 2024, the Company granted restricted stock units to members of the Board of Directors of 19,700 that vested on December 31, 2024. In 2023, the Company granted restricted stock units to members of the Board of Directors of 17,600 with a one-year vesting period. Additionally, in 2024 and 2023, 80,500 and 74,500 restricted stock units, respectively, were granted to members of management. The 80,500 restricted stock units granted in 2024 cliff vest 100% at the end of five years. The 74,500 restricted stock units granted in 2023 cliff vest 100% at the end of three years.

A summary of restricted stock unit activity for the years ended December 31, 2024 and 2023 is below:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2022	24,100	$ 17.75
Granted	92,100	15.96
Delivered	(26,850)	17.56
Forfeited	-	-
Outstanding at December 31, 2023	89,350	$ 15.97
Granted	100,200	16.53
Delivered	(28,775)	16.27
Forfeited	(1,500)	15.90
Outstanding at December 31, 2024	159,275	$ 16.26

As of December 31, 2024 and 2023, there was $1.6 million and $1.0 million of total unrecognized compensation cost related to nonvested restricted stock units shares granted under the 2017 Plan. As of December 31, 2024, the cost is expected to be recognized over a weighted-average period of 3.24 years. There were no restricted stock unit awards that were vested but were not delivered during the year ended December 31, 2024.

NOTE 14 — NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted income per share is computed by dividing net income by the weighted-average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding in-the-money stock warrants and options, as well as restricted stock units. Potential common shares are not included in the denominator of the diluted per share computation when inclusion would be anti-dilutive. As of December 31, 2024, and 2023, there were 80,000 and 142,500, potential common shares that were not included in the potentially dilutive stock options, restricted stock units and warrants, respectively.

Net income per common share were calculated as follows:

(In thousands of dollars except share and per share amounts)	2024	2023
Net income per share - basic computation:		
Net income available to common shareholders	$ 21,904	$ 24,478
Average common shares outstanding - basic	10,198,298	9,383,559
Basic net income per share	$ 2.15	$ 2.61
Diluted net income per share computation:		
Net income available to common shareholders	$ 21,904	$ 24,478
Average common shares outstanding - basic	10,198,298	9,383,559
Incremental shares from assumed conversions		
Stock options	192,283	101,656
Restricted stock units	80,052	19,470
Average common shares outstanding - diluted	10,470,633	9,504,685
Diluted net income per share	$ 2.09	$ 2.58

NOTE 15 — REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1 Capital, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the CSB consists of common shareholders' equity, excluding the unrealized gain or loss on securities AFS, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the ACL subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

CSB is also required to maintain capital at a minimum level based on total assets, which is known as the Tier 1 leverage ratio. Only the strongest banks are allowed to maintain capital at the minimum requirement of 3%. All others are subject to maintaining ratios 1% to 2% above the minimum.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require CSB to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines. Because the Company is a small bank holding company under the guidelines of the Federal Reserve System and is not required to report consolidated capital ratios for regulatory purposes, capital ratios are presented for CSB only.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, CSB is required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of CET1, but the buffer applies to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer consists of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets. The capital conservation buffer in effect for the year ended December 31, 2024 was 4.97%.

Prompt Corrective Action — In July 2013, the final rules implementing Basel III capital guidelines increased regulatory capital requirements of U.S. banking organizations in a manner that more closely reflected risk exposures and brought the regulatory capital framework into compliance with Basel III. The final rules revised the level at which the Bank becomes subject to corrective action. The federal banking agencies have broad powers with which to require companies to take prompt corrective action to resolve problems of insured depository institutions that do not meet minimum capital requirements. The law establishes five capital categories for this purpose: (i) well-capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. The final rules amended the thresholds in the prompt corrective action framework to reflect the higher capital ratios required.

Even though the prompt corrective action rules apply to banks and not bank holding companies, the FRB is authorized to take actions at the holding company level. Failure to meet applicable capital standards could subject the bank holding company or the financial institution to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authorities of a capital directive to increase capital, and the termination of deposit insurance by the FDIC. CoastalSouth Bancshares, Inc. is not subject to the provisions of prompt corrective action.

The following table summarizes the capital amounts and ratios of CSB and the regulatory minimum requirements at December 31, 2024 and 2023:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
December 31, 2024	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Coastal States Bank						
Total capital	$ 242,716	12.97%	$ 149,715	8.00%	$ 187,144	10.00%
Tier 1 capital	225,890	12.07%	112,287	6.00%	149,715	8.00%
Tier 1 leverage	225,890	10.64%	84,923	4.00%	106,154	5.00%
Common Equity Tier 1 Capital	225,890	12.07%	84,215	4.50%	121,644	6.50%
December 31, 2023						
Coastal States Bank						
Total capital	$ 215,009	12.36%	$ 139,138	8.00%	$ 173,922	10.00%
Tier 1 capital	200,333	11.52%	104,353	6.00%	139,138	8.00%
Tier 1 leverage	200,333	9.94%	80,636	4.00%	100,795	5.00%
Common Equity Tier 1 Capital	200,333	11.52%	78,265	4.50%	113,049	6.50%

The Bank's regulatory capital ratios are currently well in excess of the minimum standards and continue to be in the "well-capitalized" regulatory classification.

NOTE 16 — SHAREHOLDERS' EQUITY

Voting Common Stock **—** The Company issued 28,775 and 26,850 shares of voting common stock for vested restricted stock units ("RSU's") in 2024 and 2023, respectively. On January 26, 2024, 701,442 shares of voting common stock were issued upon a common stock offering private placement. On March 31, 2023, 446,705 shares of voting common stock were issued upon a common stock offering private placement. At December 31, 2024, there were 8,098,117 shares of $1.00 par value voting common stock outstanding.

Nonvoting Common Stock — On January 26, 2024, there were no shares of nonvoting common stock issued upon the common stock offering private placement. On March 31, 2023, 107,000 shares of nonvoting common stock were issued upon the common stock offering private placement. At December 31, 2024, there were 2,172,029 shares of $1.00 par value nonvoting common stock outstanding.

Dividends — The ability of the Company to pay cash dividends to shareholders is dependent upon receiving cash in the form of dividends from its banking subsidiary. However, certain restrictions exist regarding the ability of the subsidiary to transfer funds in the form of cash dividends to the Company. South Carolina banking regulators restrict the amount of dividends that can be paid to shareholders. All of CSB's dividends to the Company are payable only from the undivided profits of CSB. In 2024, CSB paid a $6.0 million dividend to the Company. At December 31, 2024, CSB had retained earnings of $55.8 million.

Accumulated Other Comprehensive Loss — Shareholders' equity as of December 31, 2024 was negatively impacted by the decline of fair value for our AFS investment portfolio driven by the rising interest rates. The Company reviews its AFS securities portfolio quarterly for credit related impairment, and none was recognized. Management believes that the decreases in value are driven by these interest rate movements and are not indicative of credit or other performance issues within the securities portfolio. The Company's AOCL as of December 31, 2024 was $15.8 million.

As a State chartered bank under South Carolina law, the Bank is authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the South Carolina State Board of Financial Institutions ("State Board") or the Commissioner of Banking provided that the Bank received a composite rating of one or two at the last examination conducted by the State or Federal regulatory authority. Otherwise, the Bank must file an income and expense report and obtain the specific approval of the State Board. Under Federal Reserve Board regulations, the amount of loans or advances from the banking subsidiary to the parent company are also restricted.

NOTE 17 — FAIR VALUE OF FINANCIAL INSTRUMENTS

US GAAP provides a framework for measuring and disclosing fair value which requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is defined as the exchange in 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. US GAAP 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 Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Securities AFS — Securities AFS are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted 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 the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Equity Securities **—** Equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. There were no equity securities held at December 31, 2024 and 2023.

Loans Held for Sale — Loans held for sale are comprised of loans originated for sale in the ordinary course of business and purchased with intent to sell through MBF. The fair value of loans originated for sale in the secondary market is based on purchase commitments or quoted prices for the same or similar loans and are classified as recurring Level 2. There were no loans held for sale requiring fair value adjustments at December 31, 2024 and 2023.

Collateral-Dependent Loans — The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered collateral-dependent and an allowance for credit loss is established. Collateral-dependent loans are loans where repayment is expected to be provided solely by the sale of the underlying collateral and there are no other available and reliable sources of repayment. If a loan is determined to be collateral-dependent, or if foreclosure is probable, the Company measures the net realizable value of the collateral (fair value less costs to sell) to determine the level of impairment for the loan. The valuation of collateral is supported by an appraisal, brokers price opinion, or other comparable market data. Otherwise, the Company performs a discounted cash flow analysis on the loan to determine the level of ACL needed. At December 31, 2024, substantially all of the collateral-dependent loans were evaluated based upon the fair value of the collateral. Collateral-dependent loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

OREO — Foreclosed assets are adjusted to fair value upon transfer of the loans to OREO. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. OREO presented as measured on a non-recurring basis includes only those properties that had changes in valuation. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral.

Derivative Financial Instruments — The Company's derivative financial instruments, which are interest rate contracts, are valued using a discounted cash flow method that incorporates current market interest rates.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at December 31, 2024 and 2023:

	December 31, 2024			
(In thousands of dollars)	Total	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities				
U.S. Treasuries	$ 5,612	$ -	$ 5,612	$ -
Municipal obligations	53,071	-	53,071	-
Mortgage-backed securities	166,092	-	166,092	-
Asset-backed securities	46,940	-	46,940	-
Corporate debt securities	63,552	-	63,052	500
Total	$ 335,267	$ -	$ 334,767	$ 500
Other				
Derivative assets	$ 7,717	$ -	$ 7,717	$ -
Liabilities:				
Derivative liabilities	$ (6)	$ -	$ -	$ (6)

(In thousands of dollars)	December 31, 2023 Total	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities				
U.S. Treasuries	$ 52,008	$ -	$ 52,008	$ -
Municipal obligations	62,884	-	62,884	-
Mortgage-backed securities	149,336	-	149,336	-
Asset-backed securities	55,664	-	55,664	-
Corporate debt securities	34,904	-	34,404	500
Total	$ 354,796	$ -	$ 354,296	$ 500
Other				
Derivative assets	$ 8,738	$ -	$ 8,738	$ -
Liabilities:				
Derivative liabilities	$ (165)	$ -	$ (142)	$ (23)

Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2024 and 2023 were $500 thousand. There were no changes in the value in either of those years.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy (as described above) for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2024 and 2023.

(In thousands of dollars)	December 31, 2024 Total	Level 1	Level 2	Level 3
Other real estate owned	$ 864	$ -	$ -	$ 864
Collateral-dependent loans, net	$ 13,215	$ -	$ -	$ 13,215
Total	$ 14,079	$ -	$ -	$ 14,079

(In thousands of dollars)	December 31, 2023 Total	Level 1	Level 2	Level 3
Collateral-dependent loans, net	$ 4,139	$ -	$ -	$ 4,139
Total	$ 4,139	$ -	$ -	$ 4,139

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2024 and 2023.

The following tables present quantitative information about the unobservable inputs used in Level 3 fair value measurements at December 31, 2024 and 2023:

December 31, 2024 Financial Instrument	(In thousands of dollars) Net Carrying Value	Valuation Technique	Unobservable Input	Input
Other real estate owned	$ 864	Third party appraisal or broker's price opinion	Management discount for costs to sell	10%
Collateral-dependent loans, net	$ 13,215	Third party appraisal or broker's price opinion	Management discount for costs to sell	10%

December 31, 2023	(In thousands of dollars)			
Collateral-dependent loans, net	$ 4,139	Third party appraisal or broker's price opinion	Management discount for costs to sell	10%

Fair Value of Financial Instruments

The following tables include the estimated fair value of the Company's financial assets and financial liabilities. The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and nonrecurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at December 31, 2024.

	December 31, 2024				
(In thousands of dollars)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 67,961	$ 67,961	$ 67,961	$ -	$ -
Loans held for sale	174,033	174,033	-	174,033	
Loans held for investment, net	1,392,325	1,347,071	-	-	1,347,071
Non-marketable equity securities	7,483	7,483	-	-	7,483
Financial Liabilities:					
Deposits	1,834,802	1,723,134	-	1,723,134	-
Other borrowings	41,725	41,531	-	41,531	-

	December 31, 2023				
(In thousands of dollars)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 48,553	$ 48,553	$ 48,553	$ -	$ -
Loans held for sale	82,125	82,125	-	82,125	
Loans held for investment, net	1,402,960	1,365,857	-	-	1,365,857
Non-marketable equity securities	8,608	8,608	-	-	8,608
Financial Liabilities:					
Deposits	1,750,657	1,655,992	-	1,655,992	-
Other borrowings	88,672	88,672	-	88,672	-

Cash and cash equivalents — The carrying amounts of cash and due from banks and federal funds sold approximate their fair values.

Loans held for sale — Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of one-to-four family residential real estate loans originated for sale to qualified third parties. Fair value is based upon the contractual price to be received from these third parties, which may be different than cost.

Loans held for investment, net — Fair values are estimated for portfolios of loans with similar financial characteristics if collateral-dependent. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect observable market information incorporating the credit, liquidity, yield and other risks inherent in the loan. The estimate of maturity is based upon the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions. Fair value for significant non-performing loans is generally based upon recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discounted rates are judgmentally determined using available market information and specific borrower information.

Non-marketable equity securities — Non-marketable equity securities are carried at original cost basis, as cost approximates fair value and there is no ready market for such investments.

Deposits — The fair value of deposits with no stated maturity date, such as noninterest-bearing demand deposits, savings and money market and checking accounts, is based on the discounted value of estimated cash flows. The fair value of time deposits is based upon the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Other borrowings — The fair value of the Company's FHLBA, PPPLF, line of credit and subordinated debt advances are estimated based upon the discounted value of contractual cash flows. The fair value of investment securities sold under agreements to repurchase approximates the carrying amount because of the short maturity of these borrowings. The discount rate is estimated using rates quoted for the same or similar issues or the current rates offered to the Company for debt of the same remaining maturities.

NOTE 18 — REVENUE RECOGNITION

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The Company's sources of revenue are generated from both interest and noninterest revenue streams. The majority of our revenue-generating transactions are not subject to ASC 606. Revenue streams generated by fees and interest from financial instruments, investments, and transfers and servicing of these assets are excluded from this disclosure.

The Company has certain revenue streams within the scope of ASC 606 contained within noninterest income. The Company's contracts with customers generally do not contain terms that require significant judgment to determine the amount of revenue to recognize.

The table below presents the revenue streams within the scope of the standard and is followed by a description of each noninterest income revenue stream for the years ended December 31, 2024 and 2023:

	December 31, 2024		
(In thousands of dollars)	Within Scope	Out of Scope	Total
Noninterest income:			
Gain on sale of government guaranteed loans	$ -	$ 1,818	$ 1,818
Bank-owned life insurance	-	1,664	1,664
Income from mortgage originations	-	1,204	1,204
Interchange income and card fees	868	-	868
Service charges on deposit accounts	846	-	846
Losses on sale of available-for-sale securities	-	(3,465)	(3,465)
Other noninterest income	151	1,428	1,579
Total noninterest income	$ 1,865	$ 2,649	$ 4,514

	December 31, 2023		
(In thousands of dollars)	Within Scope	Out of Scope	Total
Noninterest income:			
Bank-owned life insurance	$ -	$ 2,680	$ 2,680
Gain on sale of government guaranteed loans	-	1,360	1,360
Interchange income and card fees	1,045	-	1,045
Gain on hedge termination	-	992	992
Income from mortgage originations	-	912	912
Service charges on deposit accounts	755	-	755
Losses on sale of available-for-sale securities	-	(517)	(517)
Other noninterest income	158	1,209	1,367
Total noninterest income	$ 1,958	$ 6,636	$ 8,594

Gain on sale of government guaranteed loans — The Company records a gain from the sale of government guaranteed loans to third parties at the time the transfer is complete. The gain on sale is recognized as a result of the recognition of mortgage servicing rights and premiums paid by the buyer for the purchase of the loan.

Bank-owned life insurance — The Company's income from bank-owned life insurance primarily represents changes in the cash surrender value of such life insurance policies held on certain key employees, for which the Company is the owner and beneficiary. Revenue is recognized in each period based on the change in cash surrender value during the period.

Income from mortgage originations — The Company earns mortgage production income which is comprised primarily of activity related to the sale of consumer mortgage loans as well as loan origination fees such as closing charges, document review fees, application fees, other loan origination fees, and loan processing fees.

Interchange income and card fees — The Company earns interchange fees from debit cardholder transactions conducted through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are earned daily.

Service charges on deposit accounts — The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees and stop payment charges, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges are withdrawn from the customer's account balance.

Losses on sale of available-for-sale Securities — The Company recognizes realized gains or losses from the sale of its available-for-sale securities at the trade date and recognizes periodic mark-to-market adjustments on equity securities resulting from changes in fair value.

Gain (loss) on hedge termination, net — The Company recognizes realized gains or losses from terminated fair value hedging relationships through earnings as excluded components deferred in AOCI or AOCL that were recognized through an amortization approach are released to earnings consistent with how other components of the carrying amount of the hedged item are recognized in earnings. When a cash flow hedging instrument is sold, extinguished, terminated, exercised, or expires, it is derecognized and the amounts in AOCI or AOCL, including amounts remaining related to excluded components that were recognized through an amortization approach, remain there until the forecasted transaction impacts earnings unless the forecasted transaction becomes probable of not occurring.

Other noninterest income — Other noninterest income consists primarily of loan fees, which are out of the scope of ASC Topic 606. The items within scope of the standard primarily relate to contracts with third parties for miscellaneous referral or broker income.

Contract assets and liabilities — A contract asset balance typically occurs when an entity performs a service for a customer before the customer payment of consideration, creating a contract receivable, or before payment is due, creating a contract asset. In contrast, a contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment of consideration from the customer. The Company's noninterest revenue streams that are within the scope of ASC 606 are largely based on transactional activity which typically occurs at a point in time immediately after the performance obligations have been satisfied. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers. Therefore, the Company does not experience significant contract balances. As of December 31, 2024 and 2023, the Company did not have any significant contract balances.

NOTE 19 — DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swaps agreements as part of its asset-liability management strategy to help mitigate its interest rate risk. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. Derivative financial instruments are recorded in the Consolidated Balance Sheets as either an asset or a liability (in other assets or other liabilities, respectively) and measured at fair value.

The adoption of ASU 2020-04, Reference Rate Reform (Topic 848) resulted to transitioning away from London Interbank Offered Rate ("LIBOR") to the overnight SOFR swap with a predetermined fallback spread for the fair value hedging instruments. The cumulative basis of the hedged item attributable to changing from the originally designated benchmark interest rate was adjusted to reflect the replacement designated benchmark interest rate. Under this approach, the Company recognizes the change to the hedged item's basis adjustment immediately in earnings within the same income statement line used to present the earnings effect of the hedged item. For the cash flow hedges, LIBOR hedge and hedged item converted to Overnight SOFR as hedged item utilizes a benchmark rate component, and Fed Funds hedge at onset whereas LIBOR hedged item converted to Term SOFR as hedged item utilizes contractually specified rate. This transition occurred after end of day on June 30, 2023.

The Company presents derivative position gross on the balance sheet. The following tables reflects the derivatives recorded on the balance sheet as of the dates indicated:

(In thousands of dollars)	Included in Other Assets		Included in Other Liabilities	
December 31, 2024	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Derivatives designated as hedges:				
Interest rate swaps related to cash flow hedges	$ 225,000	$ 4,576	$ -	$ -
Interest rate swaps related to fair value hedges	25,535	3,141	-	-
Derivatives not designated as hedges:				
Sold credit protection on risk participation agreements	-	-	15,000	(6)
Total included in Other assets		$ 7,717		$ (6)

(In thousands of dollars)	Included in Other Assets		Included in Other Liabilities	
December 31, 2023	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Derivatives designated as hedges:				
Interest rate swaps related to cash flow hedges	$ 225,000	$ 5,706	$ 35,000	$ (142)
Interest rate swaps related to fair value hedges	25,535	3,032	-	-
Derivatives not designated as hedges:				
Sold credit protection on risk participation agreements	-	-	372	(23)
Total included in Other liabilities		$ 8,738		$ (165)

Fair Value Hedges

Fair value hedge interest rate swaps mature on various dates with a combined notional amount of $25.5 million at December 31, 2024. The risk management objective with respect to the fair value hedges is to hedge the risk of certain municipal securities. These fair value hedges convert the fixed rates of the bonds to a floating leg of Overnight SOFR + 26.161 basis points. The hedges were determined to be effective during the periods presented. The Company expects these hedges to remain effective during the remaining term of the swap.

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustment for the fair value hedges as of December 31, 2024 and 2023:

Line Item in the Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets	
(In thousands of dollars)	**2024**	**2023**	**2024**	**2023**
Securities available-for-sale	$ 22,632	$ 22,795	$ (3,271)	$ (3,176)

As of December 31, 2024, the total notional amount of the pay-fixed/receive variable interest rate swap portfolio was $25.5 million. There were no hedging adjustments on the balances above for discontinued relationships.

During 2023, the Company terminated 8 non-forward starting interest rate swaps designated as fair value hedges with a notional amount of $12.6 million and recognized a gain of $992 thousand in other noninterest income on the Consolidated Statements of Operations during 2023.

The following table summarizes information about the interest rate swaps designated as fair value hedges at December 31, 2024:

(Dollars in thousands)		
Notional amount of fair value hedges	$	25,535
Weighted average maturity in years		4.99

The following table presents the change in fair value for derivatives designated as fair value hedges as well as the offsetting change in fair value on the hedged item for the years ended December 31, 2024 and 2023:

	Year Ended December 31,			
(In thousands of dollars)	2024		2023	
Interest rate contracts: Gain or (Loss)				
Change in fair value of interest rate swaps hedging available-for-sale securities	$	109	$	(1,219)
Change in fair value of hedged available-for-sale securities	$	(95)	$	1,177

The following table presents the effect of fair value hedge Accounting on the Consolidated Statements of Operations and the location and amount of gain or (loss) recognized in income on Fair Value hedging relationships for the years ended December 31, 2024 and 2023:

	Year Ended December 31,			
	2024		2023	
(In thousands of dollars)	Interest Income (Offset to AOCI)		Interest Income (Offset to AOCI)	
Gain or (loss) on fair value hedging relationships				
Interest contracts:				
Change in fair value of interest rate swaps hedging available-for-sale securities	$	109	$	(1,219)
Change in fair value of hedged available-for-sale securities	$	(95)	$	1,177

Cash Flow Hedges

A cash flow hedge interest rate swap that matures on February 14, 2026 had a notional amount of $50.0 million as of December 31, 2024. The risk management objective with respect to hedge the risk of variability in its cash flows (i.e., future interest payments) attributable to changes in the SOFR rate. The objective of the hedge is to offset the variability of cash flows due to the rollover of its fixed-rate advances from February 14, 2023 to February 14, 2026. The company designates the $50.0 million interest rate swap (the hedging instrument) as a cash flow hedge of the risk of changes in cash flows attributable to changes in the benchmark Federal Funds interest rate risk for the forecasted issuances of advances arising from a rollover strategy. The forecasted funding will be provided through FHLBA, brokered CD, or other fixed rate advances or a combination thereof. In addition, the funding can be wholly or partially from a term funding based on a contractually specified SOFR interest rate. The hedge was determined to be effective during the periods presented. The Company expects the hedge to remain effective during the remaining term of the swap.

A cash flow hedge interest rate collar that matures on November 2, 2025 had a notional amount of $150.0 million as of December 31, 2024. The risk management objective with respect to this cash flow hedge is to hedge floating rate interest receipts based on the contractually specified SOFR rate. Initially, these receipts are made up of the interest payments received on the first of a previously unhedged $150.0 million pool of customer loans indexed to SOFR for interest payments received from November 2, 2022 through November 2, 2025. The company designates this interest rate collar (the hedging instrument) as a cash flow hedge, hedging the risk of changes in its cash flows between 4.00% and 1.00% attributable to changes in the contractually specified interest rate, currently the SOFR rate, on its customer floating rate loan pool. To reduce upfront premium expense, the company is capping any benefit on its customer floating rate loan pool by selling a 6.00% cap. The combination of the purchased option and the sold option created a collar costing $1.7 million. A $12.5 million portion of the cash flow utilized 1-month LIBOR as their reference rate. These cash flows transitioned to the SOFR rate due to the required LIBOR transition for all LIBOR variable rate instruments after June 30, 2023. This hedge designation references the optional expedients referenced under ASC 848, *Reference Rate Reform* due to the hedged cash flows currently referencing LIBOR at time of designation. This hedge was determined to be effective during the periods presented. The Company expects the hedge to remain effective during the remaining term of the option.

A cash flow hedge interest rate swap that matures on October 21, 2030 had a notional amount of $25.0 million as of December 31, 2024. The risk management objective with respect to the cash flow hedge is to hedge the risk of variability in the Company's cash flows (future interest payments) attributable to changes in the 3-month LIBOR rate pertaining to fluctuations in market interest rates on $25.0 million of FHLBA, brokered Certificate of Deposits or other fixed rate advances for that period. The objective of the hedge is to offset the variability of cash flows due to the rollover of its fixed-rate 3-month FHLBA or another fixed rate advance every quarter from October 31, 2022 to October 21, 2030. After June 30, 2023, both LIBOR hedge and hedged item converted to Overnight SOFR as hedged item utilizes a benchmark rate component. The hedge was determined to be effective during the periods presented. The Company expects the hedge to remain effective during the remaining term of the swap.

The tables below present the gains and (losses) recognized in AOCI and the location in the Consolidated Statements of Operations of the gains and (losses) reclassified from OCI into earnings for derivatives designated as cash flow hedges for the years ended December 31, 2024 and 2023:

2024				
(In thousands of dollars)				
Derivatives in Cash Flow Hedging Relationships	**Amount of Gain (Loss) Recognized in OCI on Derivative**	**Location of Gain (Loss) Reclassified from OCI into Income**	**Amount of Gain (Loss) Reclassified from OCI into Income (pre-tax)**	
Interest rate swap contracts		Interest income (expense)		
Effective portion	$ 890	Effective portion	$ 1,751	
Deferred tax	$ (128)	Amount excluded from the assessment of effectiveness and amortized into earnings	$ (455)	

2023			
(In thousands of dollars)			
Derivatives in Cash Flow Hedging Relationships	**Amount of Gain (Loss) Recognized in OCI on Derivative**	**Location of Gain (Loss) Reclassified from OCI into Income**	**Amount of Gain (Loss) Reclassified from OCI into Income (pre-tax)**
Interest rate swap contracts		Interest income (expense)	
Effective portion	$ 407	Effective portion	$ 328
Deferred tax	$ 160	Amount excluded from the assessment of effectiveness and amortized into earnings	$ (426)

Gains and losses on interest rate swaps related to funding liabilities are recorded in interest income/expense. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value will not be included in current earnings but are reported as a component of OCI in the Consolidated Statements of Changes in Shareholders' Equity. These changes in fair value will be included in earnings of future periods when earnings are also affected by the changes in the hedged cash flows. To the extent these derivatives are not effective, changes in their fair values are immediately included in other income or expense.

The following tables summarizes information about the interest rate swaps and option collar designated as a cash flow hedge at December 31, 2024:

(Dollars in thousands)		
Notional Amount - Pay Fixed Swap	$	75,000
Weighted average fixed pay rate		2.78%
Weighted average 3-month receive rate		5.26%
Weighted average maturity in years		2.68
During the next twelve months, the Company estimates that will be reclassified from OCI as a decrease to interest expense	$	806
During the next twelve months, the Company estimates that will be reclassified from Deferred Tax as a decrease to interest expense	$	255

(Dollars in thousands)		
Notional Amount Collar	$	150,000
Floor strike		4.00%
Cap strike		6.00%
Weighted average maturity in years		0.84
During the next twelve months, the Company estimates that will be reclassified from OCI as a decrease to interest income	$	547
During the next twelve months, the Company estimates that will be reclassified from Deferred Tax as a decrease to interest income	$	173

Derivatives not Designated as Hedges

Risk Participation Agreements — The Company has one risk participation agreement with a financial institution counterparty for an interest rate swap related to a loan in which it is a participant. A risk participation agreement provides credit protection to the financial institution should the borrower fail to perform on their interest rate derivative contract with the financial institution. A risk participation agreement is a credit derivative not designated as a hedge. Credit derivatives are not speculative and are not used to manage interest rate risk in assets or liabilities. Changes in the fair value in credit derivatives are recognized directly in earnings. The fee received, less the estimate of the loss for the credit exposure, was recognized in earnings at the time of the transaction.

The net gain (loss) related to changes in fair value from derivative instruments not designated as hedging instruments during the years ended December 31, 2024 and 2023 is summarized on the table below:

		Year Ended December 31,	
(In thousands of dollars)	**Location**	**2024**	**2023**
Credit risk participation agreements	Other noninterest income	$ (6)	$ (23)

NOTE 20 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following were changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ended December 31, 2024 and 2023:

(In thousands of dollars) **Year Ended December 31, 2024**	**Gains and Losses on Securities Available-for-Sale**	**Gains and Losses on Cash Flow Hedges**	**Total**
Beginning Balance	$ (22,863)	$ 3,332	$ (19,531)
Other comprehensive income (loss) before reclassification, net of tax	1,496	587	2,083
Amounts reclassified from accumulated other comprehensive income, net of tax	2,654	(993)	1,661
Net current period other comprehensive income (loss)	4,150	(406)	3,744
Ending Balance	$ (18,713)	$ 2,926	$ (15,787)
Year Ended December 31, 2023			
Beginning Balance	$ (29,502)	$ 2,827	$ (26,675)
Other comprehensive income (loss) before reclassification, net of tax	7,003	430	7,433
Amounts reclassified from accumulated other comprehensive income, net of tax	(364)	75	(289)
Net current period other comprehensive income (loss)	6,639	505	7,144
Ending Balance	$ (22,863)	$ 3,332	$ (19,531)

The following were significant amounts reclassified out of each component of other comprehensive income (loss) for the years ended December 31, 2024 and 2023:

Details about Accumulative Other Comprehensive Income (Loss) Components	(In thousands of dollars) **Year Ended December 31, 2024**	**Year Ended December 31, 2023**	**Affected Line Item Where Net Income is Presented**
Realized (gains) losses on available-for-sale securities	$ 3,465	$ 517	Losses on sale of available-for-sale securities
	-	(992)	Gain on hedge termination
	(811)	111	Income tax provision (benefit)
	$ 2,654	$ (364)	Net income
Realized (gains) losses on cash flow hedges	$ 455	$ 426	Interest income - Loans held-for-investment
	145	1,378	Interest income - Investments, taxable
	-	(282)	Interest expense - Other borrowings
	(1,896)	(1,424)	Interest expense - Interest-bearing deposits
	303	(23)	Income tax provision (benefit)
	$ (993)	$ 75	Net income

NOTE 21 — CONDENSED FINANCIAL INFORMATION OF COASTALSOUTH BANCSHARES, INC. (PARENT COMPANY ONLY)

Condensed Balance Sheets
December 31, 2024 and 2023

(In thousands of dollars)	2024	2023
Assets		
Cash and due from banks [1]	$ 1,644	$ 2,683
Investment in bank subsidiary [1]	218,546	190,081
Other assets	2,092	2,394
Total assets	222,282	195,158
Liabilities		
Other borrowings	26,725	38,672
Accrued expenses and other liabilities	325	443
Total liabilities	27,050	39,115
Shareholders' equity		
Common stock	10,270	9,540
Capital surplus	158,755	145,944
Accumulated retained earnings	41,994	20,090
Accumulated other comprehensive loss	(15,787)	(19,531)
Total shareholders' equity	195,232	156,043
Total liabilities and shareholders' equity	$ 222,282	$ 195,158

[1] *Eliminated in consolidation*

Condensed Statements of Operations
Years Ended December 31, 2024 and 2023

(In thousands of dollars)	2024	2023
Income		
Dividend income from bank subsidiary [1]	$ 6,000	$ -
Other income	75	17
Total income	6,075	17
Expenses		
Other borrowings	2,030	2,448
Other expenses	98	75
Total expenses	2,128	2,523
Income (loss) before taxes and equity in undistributed income of subsidiary	3,947	(2,506)
Income tax benefit	(533)	(651)
Income (loss) before equity in undistributed income of subsidiary	4,480	(1,855)
Equity in undistributed income of subsidiary [1]	17,424	26,333
Net income	$ 21,904	$ 24,478

[1] *Eliminated in consolidation*

Condensed Statements of Cash Flows
Years Ended December 31, 2024 and 2023

(In thousands of dollars)	2024	2023
Cash flows from operating activities		
Net income	$ 21,904	$ 24,478
Adjustments to reconcile net income to net cash used by operating activities:		
Equity in undistributed net income of subsidiary	(17,424)	(26,333)
Dividend income from bank subsidiary	(6,000)	-
Debt issuance cost amortization	53	38
Increase in tax receivable	(421)	(226)
Increase in other assets	310	(324)
Decrease in accrued expenses and other liabilities	295	364
Net cash used by operating activities	(1,283)	(2,003)
Cash flows from investing activities		
Investment in subsidiary	-	(14,700)
Net cash used by investing activities	-	(14,700)
Cash flows from financing activities		
Proceeds from commercial line of credit	-	6,000
Repayment of commercial line of credit	(12,000)	-
Issuance of common stock upon private placement	12,244	8,835
Net cash provided by financing activities	244	14,835
Net (decrease) increase in cash and cash equivalents	(1,039)	(1,868)
Cash and cash equivalents, beginning of year	2,683	4,551
Cash and cash equivalents, end of year	$ 1,644	$ 2,683

NOTE 22 — 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. Nonrecognized 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.

The Company evaluated subsequent events through the date its financial statements were issued, and there were no other subsequent events requiring accrual or disclosure through March 5, 2025.