



# Southern Bank

## 2025 Annual Report

Southern BancShares (N.C.), Inc., is the holding company for Southern Bank and Trust Company

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# LETTER TO SHAREHOLDERS

MARCH 24, 2026

Dear Shareholder,

As we reflect on 2025, we do so with both perspective and purpose. In 2026, our organization will mark its 125th year since our founding in 1901—a milestone that speaks not only to longevity, but to the responsibility of stewardship across generations. Enduring institutions do not succeed by standing still, but by adapting thoughtfully while remaining anchored to core principles. Against a backdrop of continued economic uncertainty and an evolving interest rate environment, Southern delivered another solid year of operating results while remaining true to the relationship-driven community banking model that has defined us for generations.

From an operating standpoint, our core institution performed well throughout the year. Loan growth totaled 5 percent, while deposits increased by 4 percent. Importantly, deposit growth was well balanced, with over \$80 million of growth in demand deposits, a favorable reflection on the depth of customer relationships and critical component of a bank's long-term franchise strength. These results reflect both disciplined execution by our teams and the enduring value of a diversified, relationship-focused deposit base.

Core net income for the year, excluding the impact of changes in the market value of our long-held equity securities portfolio, was \$63 million. Reported GAAP net income (which includes the after-tax impact of growth in our equity securities portfolio) totaled \$68 million. As I have discussed in prior letters, the accounting treatment for equity securities can introduce year-to-year volatility in reported earnings despite no change in how we manage these investments. We believe core earnings remain the most meaningful measure of the underlying performance of our company, and in that regard, 2025 was a healthy and productive year.

The broader economy proved more resilient than many expected during the year. Consumer and commercial activity held up well across our markets, and we enter 2026 with strong pipelines, solid operating momentum, and cautious optimism about the opportunities ahead. In September, the Federal Reserve began reducing its target overnight rate, lowering rates by a cumulative 75 basis points by year-end. While changes in monetary policy inevitably influence pricing decisions, our focus remains on disciplined balance sheet management and long-term relationship building rather than responding to short-term rate movements.

As larger institutions continue to consolidate and automate, we remain committed to providing a distinctive banking experience built on accessibility, responsiveness, and trust. At the same time, we recognize that thoughtful investments in technology are essential to meeting our customers' evolving expectations. Over the past several months, we have been deeply engaged in a major initiative to deliver an entirely new, state-of-the-art online and mobile banking platform for our customers. This project represents a significant investment in our future and is expected to be brought to market in the latter half of 2026.

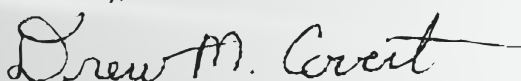
We are genuinely excited about the enhanced digital capabilities these new solutions will provide our customers. However, we remain equally committed to the belief that technology should enhance—not replace—the personal relationships that define Southern. Our goal is to offer modern, intuitive digital tools while preserving the direct access to bankers and decision-makers that our customers value and rely upon every day.

None of our success would be possible without the extraordinary efforts of our support and operational teams. These associates work tirelessly behind the scenes to ensure our frontline teams have the tools, systems, and infrastructure necessary to deliver an exceptional customer experience. Their commitment, professionalism, and attention to detail create the foundation that allows our organization to perform at a high level and deliver a banking experience our customers simply cannot find elsewhere. I am deeply grateful for their dedication and the pride they take in their work.

Looking ahead, we believe Southern is well positioned as we move into our 125th year and beyond. Our balance sheet remains strong, our culture is intact, and our focus is clear. We will continue to invest prudently in our people, our technology, and our communities while remaining disciplined in our approach to growth and risk management.

As always, I want to thank our associates, customers, and shareholders for their continued loyalty and confidence in our company. We are honored to serve you and remain optimistic about our road ahead.

Sincerely,



Drew M. Covert

Chairman / Chief Executive Officer  
Southern BancShares (N.C.), Inc. &  
Southern Bank and Trust Company

# BOARD OF DIRECTORS

Board of Directors of Southern BancShares and Southern Bank



## Back Row:

Pictured Left to Right

G. ROUSE IVEY

JULIAN R. AYCOCK

THOMAS R. SALLENGER

MICHAEL L. CHESTNUTT

WILLIAM H. BRYAN

JOHN C. PEGRAM

JOEL K. BUTLER

## Front Row:

J. GREY MORGAN

OLIVIA B. HOLDING

DREW M. COVERT

HOPE H. BRYANT

MALCOLM R. SULLIVAN, JR.

## Director Emeritus:

M.J. McSORLEY

# SENIOR LEADERSHIP

Leadership of Southern BancShares and Southern Bank



## Back Row:

### Pictured Left to Right

**EDWARD I. COLTRAIN**, Executive Vice President and Chief Operating Officer

**JERRY C. ALEXANDER**, Executive Vice President

**DAVID L. SAULS, JR.**, Executive Vice President and Chief Financial Officer

**ROBERT E. WOOD**, Executive Vice President and Chief Credit Officer

**W. JASON WAUGHTEL**, Executive Vice President

## Front Row:

**L. TAYLOR HARRELL, III**, President

**VALERIE W. ROBERSON**, Senior Vice President and Director of Human Resources

**DREW M. COVERT**, Chief Executive Officer

**MICHAEL T. BRYANT**, Executive Vice President

**T. ANDREW SCOTT**, Senior Vice President

## Not Photographed:

**W. TRENT DUDLEY**, Executive Vice President

**SONDRA F. MCCORQUODALE**, Executive Vice President and Chief Digital Officer

# FINANCIAL SUMMARY (unaudited)

Dollars in thousands except per share information

	December 31,				
	2025	2024	2023	2022	2021
<b>CONDENSED CONSOLIDATED BALANCE SHEETS</b>					
Assets					
Cash and cash equivalents	\$ 276,435	\$ 285,340	\$ 105,623	\$ 139,839	\$ 185,521
Investment in marketable equity securities	471,842	466,104	315,951	173,187	188,420
Investment securities available for sale	1,253,574	1,213,327	1,301,645	1,380,120	1,613,292
Loans, net of allowance for credit losses	3,380,289	3,214,674	3,075,950	2,814,533	2,410,240
Other assets	201,206	206,139	188,770	218,878	193,507
<b>Total assets</b>	<b>\$ 5,583,346</b>	<b>\$ 5,385,584</b>	<b>\$ 4,987,939</b>	<b>\$ 4,726,557</b>	<b>\$ 4,590,980</b>
Liabilities and Shareholders' Equity					
Deposits	\$ 4,638,288	\$ 4,443,927	\$ 4,137,764	\$ 4,125,982	\$ 3,919,183
Borrowings	133,853	271,824	364,718	297,054	152,544
Other liabilities	86,193	66,182	25,475	19,238	52,314
<b>Total liabilities</b>	<b>4,858,334</b>	<b>4,781,933</b>	<b>4,527,957</b>	<b>4,442,274</b>	<b>4,124,041</b>
Shareholders' equity	725,012	603,651	459,982	284,283	466,939
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,583,346</b>	<b>\$ 5,385,584</b>	<b>\$ 4,987,939</b>	<b>\$ 4,726,557</b>	<b>\$ 4,590,980</b>
Tangible book value per common share (non-GAAP)	\$ 9,160.94	\$ 7,489.20	\$ 5,540.30	\$ 3,193.18	\$ 5,444.55

	Year Ended December 31,				
	2025	2024	2023	2022	2021
<b>CONDENSED CONSOLIDATED STATEMENTS OF INCOME</b>					
Interest income	\$ 220,762	\$ 197,615	\$ 169,943	\$ 140,961	\$ 123,038
Interest expense	61,805	72,127	51,843	11,179	5,119
<b>Net interest income</b>	<b>158,957</b>	<b>125,488</b>	<b>118,100</b>	<b>129,782</b>	<b>117,919</b>
Provision (recovery) for credit losses	2,125	792	(163)	6,279	(815)
<b>Net interest income after provision (recovery) for credit losses</b>	<b>156,832</b>	<b>124,696</b>	<b>118,263</b>	<b>123,503</b>	<b>118,734</b>
Noninterest income	39,749	178,961	169,492	11,416	84,849
Noninterest expense	109,758	103,610	100,613	95,477	88,434
<b>Income before income taxes</b>	<b>86,823</b>	<b>200,047</b>	<b>187,142</b>	<b>39,442</b>	<b>115,149</b>
Income taxes	18,548	42,223	38,754	9,523	21,603
<b>Net income</b>	<b>\$ 68,275</b>	<b>\$ 157,824</b>	<b>\$ 148,388</b>	<b>\$ 29,919</b>	<b>\$ 93,546</b>
<b>Net income (GAAP)</b>	<b>\$ 68,275</b>	<b>\$ 157,824</b>	<b>\$ 148,388</b>	<b>\$ 29,919</b>	<b>\$ 93,546</b>
Less net income (loss) related to marketable equity securities, net of tax	5,312	116,948	110,928	(13,328)	45,371
<b>Adjusted core net income (non-GAAP)</b>	<b>\$ 62,963</b>	<b>\$ 40,876</b>	<b>\$ 37,460</b>	<b>\$ 43,247</b>	<b>\$ 48,175</b>

## PER SHARE INFORMATION

Per average common share outstanding:

Net income (GAAP)	\$ 901.29	\$ 2,064.11	\$ 1,907.08	\$ 377.64	\$ 1,168.54
Adjusted core net income (non-GAAP)	830.90	532.11	478.94	547.38	600.14
Cash dividends paid per common share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 20.00

**SOUTHERN BANCSHARES (N.C.), INC.**

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**2025 Consolidated Financial Statements**

# SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY

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## Independent Auditor's Report

Board of Directors  
Southern BancShares (N.C.), Inc.  
Mount Olive, North Carolina

### **Opinion**

We have audited the consolidated financial statements of Southern BancShares, (N.C.), Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, 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, 2025, based on the criteria established in *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 23, 2026 expressed an unmodified opinion thereon.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 for the year after the date that these consolidated financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

**Forvis Mazars, LLP**

**Greenville, North Carolina  
March 23, 2026**

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands Except Share and Per Share Data)

	December 31,	
	2025	2024
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 26,067	\$ 25,286
Interest-bearing deposits with banks	249,018	258,704
Certificates of deposit with banks	1,350	1,350
Total cash and cash equivalents	<u>276,435</u>	<u>285,340</u>
Investment in marketable equity securities at fair value (cost of \$31,090 and \$32,098, respectively)	471,842	466,104
Investment securities available for sale, at fair value (amortized cost of \$1,409,491 and \$1,446,515, respectively)	1,253,574	1,213,327
Loans held for sale	11,461	12,431
Loans	3,416,390	3,248,926
Less allowance for credit losses	<u>(36,101)</u>	<u>(34,252)</u>
Net loans	3,380,289	3,214,674
Premises and equipment, net	56,094	60,969
Operating lease right of use assets	3,110	2,847
Accrued interest receivable	19,025	17,803
Stock in Federal Home Loan Bank of Atlanta	4,935	10,931
Other real estate owned	-	-
Goodwill	26,649	26,649
Intangible assets	7,291	6,544
Bank owned life insurance	31,357	30,623
Other assets	41,284	37,342
Total assets	<u>\$ 5,583,346</u>	<u>\$ 5,385,584</u>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 1,422,718	\$ 1,344,868
Interest-bearing	3,215,570	3,099,059
Total deposits	<u>4,638,288</u>	<u>4,443,927</u>
Short-term borrowings	64,250	162,497
Long-term borrowings	69,603	109,327
Operating lease liabilities	3,247	3,045
Other liabilities	82,946	63,137
Total liabilities	<u>4,858,334</u>	<u>4,781,933</u>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock	1,693	1,706
Common stock, \$5 par value; 158,485 shares authorized; 75,252 and 75,943 shares issued and outstanding at December 31, 2025 and 2024, respectively	376	380
Surplus	27,439	27,189
Retained earnings	812,104	752,130
Accumulated other comprehensive loss	<u>(116,600)</u>	<u>(177,754)</u>
Total shareholders' equity	<u>725,012</u>	<u>603,651</u>
Total liabilities and shareholders' equity	<u>\$ 5,583,346</u>	<u>\$ 5,385,584</u>

See Notes to Consolidated Financial Statements

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Dollars in Thousands Except Share and Per Share Data)

	Year Ended December 31,	
	2025	2024
Interest income:		
Loans	\$ 177,826	\$ 158,675
Investment securities	31,212	31,661
Other	11,724	7,279
Total interest income	<u>220,762</u>	<u>197,615</u>
Interest expense:		
Deposits	56,307	59,170
Short-term borrowings	2,892	10,403
Long-term borrowings	2,606	2,554
Total interest expense	<u>61,805</u>	<u>72,127</u>
Net interest income	158,957	125,488
Provision for credit losses	2,125	792
Net interest income after provision for credit losses	<u>156,832</u>	<u>124,696</u>
Noninterest income:		
Service charges on deposit accounts	8,644	8,195
Other service charges and fees	8,934	8,324
Realized gains (losses) on investments:		
Equity securities	5,445	-
Investment securities available for sale	(4,511)	(1)
Unrealized gains on equity securities	6,745	148,015
Gain on sale of loans	149	427
Loss on sale of other real estate owned, net of writedowns	-	-
Wealth management revenue	5,592	4,888
Other	8,751	9,113
Total noninterest income	<u>39,749</u>	<u>178,961</u>
Noninterest expense:		
Personnel	67,989	62,646
Data processing	10,321	11,529
Occupancy	7,243	7,135
Furniture and equipment	6,768	6,497
FDIC assessments	2,515	2,437
Professional fees	2,297	3,332
Amortization of intangibles	1,081	1,048
Other	11,544	8,986
Total noninterest expense	<u>109,758</u>	<u>103,610</u>
Income before income taxes	86,823	200,047
Income taxes	18,548	42,223
Net income	<u>68,275</u>	<u>157,824</u>
Other comprehensive (loss) income:		
Unrealized (losses) gains arising during period on investment securities available for sale	77,271	(8,028)
Tax effect	(20,602)	1,770
Reclassification adjustment from investment security transactions	4,511	1
Tax effect	(1,015)	-
Net of tax amount	<u>60,165</u>	<u>(6,257)</u>
Pension obligation	1,830	(765)
Tax effect	(841)	127
Net of tax amount	<u>989</u>	<u>(638)</u>
Total other comprehensive (loss) income	<u>61,154</u>	<u>(6,895)</u>
Comprehensive income	<u>\$ 129,429</u>	<u>\$ 150,929</u>
Per share information:		
Net income available to common shareholders per common share, basic and diluted	\$ 901.29	\$ 2,064.11
Cash dividends declared on common shares	25.00	25.00
Weighted average common shares outstanding	75,471	76,337

See Notes to Consolidated Financial Statements

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Dollars in Thousands Except Share and Per Share Data)

	Preferred		Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Series B	Series C					
Balance, December 31, 2023	\$ 1,255	\$ 472	\$ 384	\$ 27,043	\$ 601,687	\$ (170,859)	\$ 459,982
Net income	-	-	-	-	157,824	-	157,824
Other comprehensive loss	-	-	-	-	-	(6,895)	(6,895)
Comprehensive income	-	-	-	-	157,824	(6,895)	150,929
Common shares issued	-	-	-	146	-	-	146
Purchase and retirement of stock	(21)	-	(4)	-	(5,218)	-	(5,243)
Cash dividends:							
Common stock	-	-	-	-	(1,907)	-	(1,907)
Preferred B	-	-	-	-	(224)	-	(224)
Preferred C	-	-	-	-	(32)	-	(32)
Balance, December 31, 2024	<u>1,234</u>	<u>472</u>	<u>380</u>	<u>27,189</u>	<u>752,130</u>	<u>(177,754)</u>	<u>603,651</u>
Net income	-	-	-	-	68,275	-	68,275
Other comprehensive loss	-	-	-	-	-	61,154	61,154
Comprehensive income	-	-	-	-	68,275	61,154	129,429
Common shares issued	-	-	-	250	-	-	250
Purchase and retirement of stock	(13)	-	(4)	-	(6,161)	-	(6,178)
Cash dividends:							
Common stock	-	-	-	-	(1,886)	-	(1,886)
Preferred B	-	-	-	-	(222)	-	(222)
Preferred C	-	-	-	-	(32)	-	(32)
Balance, December 31, 2025	<u>\$ 1,221</u>	<u>\$ 472</u>	<u>\$ 376</u>	<u>\$ 27,439</u>	<u>\$ 812,104</u>	<u>\$ (116,600)</u>	<u>\$ 725,012</u>

See Notes to Consolidated Financial Statements

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Dollars in Thousands Except Share and Per Share Data)**

	Year Ended December 31,	
	2025	2024
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 68,275	\$ 157,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,125	792
Deferred income tax expense	769	30,681
Unrealized gain on marketable equity securities	(6,745)	(148,015)
Gain on sale of marketable equity securities	(5,445)	-
Loss on sales and issuer calls of securities	4,511	1
Loss and writedowns on real estate held for sale	149	76
Gain on sale of loans	(149)	(427)
Net amortization of investment securities available for sale	1,728	2,147
Accretion on acquired loans	(654)	(974)
Amortization of intangibles and mortgage servicing rights	1,081	1,048
Depreciation	3,592	4,123
Amortization of long-term borrowings issuance costs	276	104
Proceeds from sales of loans held for sale	142,578	115,678
Origination of loans held for sale	(141,459)	(123,836)
Amortization of operating lease right of use assets	825	711
Payments on operating lease liabilities	(886)	(741)
Net increase in intangible assets	(1,828)	(1,359)
Net increase in accrued interest receivable	(1,222)	(1,023)
Net increase in cash surrender value of bank owned life insurance	(747)	(807)
Net change in other assets	(4,081)	(8,692)
Net change in other liabilities	7,454	10,747
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>70,147</b>	<b>38,058</b>
<b>INVESTING ACTIVITIES:</b>		
Purchases of marketable equity securities	(3,593)	(2,138)
Proceeds from sales of marketable equity securities	10,045	-
Proceeds from maturities, paydowns, and calls of investment securities available for sale	89,027	87,198
Proceeds from sales of investment securities available for sale	90,716	-
Purchases of investment securities available for sale	(153,469)	(9,963)
Net increase in loans	(166,810)	(138,965)
Net decrease in FHLB stock	5,996	3,921
Purchases of premises and equipment	(1,753)	(4,344)
Proceeds from sale of premises and equipment	2,743	45
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(127,098)</b>	<b>(64,246)</b>
<b>FINANCING ACTIVITIES:</b>		
Net increase (decrease) in noninterest-bearing demand deposits	77,850	(61,821)
Net increase in interest-bearing deposits	116,511	367,984
Net decrease in short-term borrowings	(138,247)	(92,998)
Proceeds from issuance of common stock	250	146
Cash dividends paid	(2,140)	(2,163)
Purchase and retirement of stock	(6,178)	(5,243)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>48,046</b>	<b>205,905</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,905)</b>	<b>179,717</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<b>285,340</b>	<b>105,623</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>\$ 276,435</b>	<b>\$ 285,340</b>

See Notes to Consolidated Financial Statements

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**(Dollars in Thousands Except Share and Per Share Data)**

	Year Ended December 31,	
	2025	2024
SUPPLEMENTAL DISCLOSURES OF CASH PAID DURING THE YEAR FOR:		
Interest	\$ 62,732	\$ 73,270
Income taxes:		
Federal	\$ 15,271	\$ 7,905
North Carolina	1,412	804
Total	<u>\$ 16,683</u>	<u>\$ 8,709</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Unrealized gains (losses) on available-for-sale securities, net of tax	\$ 60,165	\$ (6,257)
Change in pension obligation, net of tax	989	(638)
Premises and equipment transferred to other assets	293	347
Recognition of new and modified operating lease right of use assets	(1,088)	(386)
Reclassification of long-term borrowings to short-term borrowings	40,000	30,000

See Notes to Consolidated Financial Statements

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in Thousands for Tabular Presentations)**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies**

Southern BancShares (N.C.), Inc. ("BancShares" or the "Company") is the holding company for Southern Bank and Trust Company ("Southern"), which operates 45 banking offices in eastern North Carolina and 10 banking offices in Virginia. In addition to the full-service banking offices, Southern also maintains a mortgage loan production office in North Carolina.

Southern, which began operations January 29, 1901, has a wholly-owned subsidiary, Goshen, Inc., whose primary operations include holding certain investments. BancShares and Southern are headquartered in Mount Olive, North Carolina.

BancShares has no foreign operations and BancShares' customers are principally located in eastern North Carolina and southeastern Virginia.

BancShares and Southern are subject to federal and state banking laws and regulations. These laws and regulations focus on the protection of depositors, federal deposit insurance funds, and the banking system as a whole rather than the protection of security holders. Federal and state banking regulators possess broad powers to take supervisory actions they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums, increased expenses, restrictions on fee income and limitations on activities that could have a materially adverse effect on our results of operations.

**Principles of Consolidation**

The consolidated financial statements include the accounts of BancShares and other entities in which BancShares has a controlling interest. All significant intercompany balances have been eliminated in consolidation.

**Basis of Financial Statement Presentation**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") 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. The most significant estimates made by BancShares in the preparation of its consolidated financial statements are:

- Investment security valuation
- Determination of the allowance for credit losses ("ACL")
- Goodwill impairment
- Pension plan assumptions
- Mortgage servicing rights
- Income taxes

**Accounting Policy Changes**

The following accounting standards have been adopted and are reflected in the consolidated financial statements as described below. Newly-issued ASUs that have not been adopted by BancShares are discussed under the caption Recent Accounting Pronouncements.

*ASU 2024-02, "Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method."* ASU 2024-02 seeks to improve the accounting and disclosures for investments in tax credit structures. ASU 2024-02 allows entities to elect to account for qualifying tax equity investments using the proportional amortization method, which was previously only available for qualifying investments in low-income housing tax credit structures. ASU 2024-02 became effective for us in 2025 and did not have a significant impact on our consolidated financial statements.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in Thousands for Tabular Presentations)**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

ASU 2023-07, “*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.*” ASU 2023-07 expands segment disclosure requirements to require disclosure of significant segment expenses and other segment items for companies with multiple operating segments. ASU 2023-07 became effective for our annual financial statements in 2024. The Company continues to operate as a single operating segment with all banking products and services provided through various integrated delivery channels, including the branch network and various technology-based options. The Company has identified its Chief Executive Officer as the chief operating decision maker (“CODM”), and the CODM primarily relies on consolidated financial information for decision making purposes, resource allocation decisions, and analysis of performance compared to other financial institutions. Primary profitability measures include net income, net interest income, noninterest income and noninterest expense. Accounting policies are applied consistently throughout the Company.

ASU 2023-09, “*Income Taxes (Topic 740): Improvements to Income Tax Disclosures.*” ASU 2023-09 requires public business entities to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. ASU 2023-09 requires various disclosures including income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods. ASU 2023-09 was effective on January 1, 2025, and did not have a significant impact on our consolidated financial statements.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and certificates of deposit with banks. Overnight and federal funds are purchased and sold for one day periods.

**Investment in Equity Securities**

Equity securities are recorded on a trade date basis and measured at fair value with all changes recorded through income. Realized and unrealized gains and losses are determined by specific identification and are included in noninterest income. Non-marketable equity securities are securities that do not have readily determinable fair values and are measured at cost. Equity securities with no recurring market value data available are reviewed periodically and any observable market value changes are adjusted through noninterest income. BancShares evaluates its non-marketable equity securities for impairment and recoverability of the recorded investment by considering positive and negative evidence, including the profitability and asset quality of the issuer, dividend payment history and recent redemption experience. Impairment is assessed at each reporting period and if identified, is recognized in noninterest income.

For equity investments without a readily determinable fair value, BancShares has elected to measure the equity investments using the measurement alternative, which requires BancShares to make a qualitative assessment of whether the investment is impaired at each reporting period. Under the measurement alternative, these investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. If a qualitative assessment indicates that the investment is impaired, BancShares will estimate the investment's fair value in accordance with ASC 820, *Fair Value Measurements and Disclosure* and, if the fair value is less than the investment's carrying value, recognize an impairment loss in net income equal to the difference between carrying value and fair value. Equity investments without a readily determinable fair value totaling \$4.1 million at December 31, 2025, and \$4.0 million at December 31, 2024, are recorded within other assets in the consolidated balance sheets.

**Investment Securities Available for Sale**

BancShares classifies debt securities as available for sale, and they are reported at estimated fair value, with unrealized gains and losses, net of income taxes, reported in accumulated other comprehensive loss (AOCI). Amortization of premiums and accretion of discounts for debt securities are included in interest income. Realized gains and losses from the sale of debt securities are determined by specific identification on a trade date basis and are included in noninterest income.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in Thousands for Tabular Presentations)**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Investment Securities Available for Sale (continued)**

Management performs a quarterly analysis of the investment securities available for sale portfolio to evaluate securities currently in an unrealized loss position for potential credit-related impairment. If BancShares intends to sell a security, or does not have the intent and ability to hold a security before recovering the amortized cost, the entirety of the unrealized loss is immediately recorded in earnings. For the remaining securities, an analysis is performed to determine if any portion of the unrealized loss relates to credit impairment. In this evaluation, management considers changes in credit rating, delinquency, bankruptcy or other significant developments affecting the issuer. If any credit-related impairment is identified, the amount is recorded as an adjustment to the ACL with an offset to the provision for credit losses.

**Loans Held for Sale**

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Estimated fair value is determined on the basis of existing forward commitments or the current market value of similar loans. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Prior to closing loans intended for sale in the secondary market, an interest rate lock commitment is entered into with the borrower. The interest rate lock is considered a derivative for Southern, whose estimated fair value is determined by current market rates for similar loans. Loans held-for-sale are normally sold to investors as part of a “mandatory” delivery program for mortgage loans. Under the mandatory delivery system, loans with interest rate locks are paired with the sale of a “to be announced” (“TBA”) mortgage-backed security bearing similar attributes. Under the mandatory delivery program, BancShares commits to deliver loans to an investor at an agreed upon price prior to the close of such loans. Loans held-for-sale may also be sold to investors with the best efforts intent and ability to sell the loans as long as they meet the underwriting standards of the potential investor. A “best efforts” delivery sets the sale price with the investor on a loan-by-loan basis when each loan is locked. At December 31, 2025 and 2024, the estimated fair value of mortgage related derivatives was determined to be immaterial.

**Loans**

Loans held for investment are recorded at the principal amount outstanding, net of any unearned income, prior charge-offs and unamortized fees and costs. Interest income is recognized in a manner that approximates the level yield method when related to the principal amount outstanding. The net amount of deferred fees and costs is amortized to interest income over the contractual lives using methods that approximate a level yield.

The past due status of loans is based on the contractual terms of the loan. Accrual of interest is discontinued when management believes the borrower’s financial condition is such that collection of principal or interest is doubtful. Loans are returned to an accrual status when the factors indicating doubtful collectability cease to exist and the loan has performed in accordance with its terms for a demonstrated period of time. Loan balances considered uncollectible are charged-off against the ACL.

Loan balances are presented based on the loan classes used to calculate the ACL.

**Loan Modifications for Borrowers Experiencing Financial Difficulties**

Modifications granted to borrowers experiencing financial difficulties may include term extensions, interest rate reductions, other-than-insignificant payment delays, principal forgiveness, or a combination of these items. Modifications are made in accordance with internal policies and guidelines to conform to regulatory guidance. Considered in isolation, loan modifications to borrowers experiencing financial difficulties do not affect the treatment of the loan for purposes of the ACL calculation.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Allowance for Credit Losses (ACL)**

The ACL calculation is based on the current expected credit loss methodology for the measurement of credit losses on financial assets measured at amortized cost basis.

*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. Prepayment assumptions are calculated based on BancShares' historical prepayment activity. Estimates for loan losses are determined by analyzing quantitative and qualitative components as of the evaluation date.

For the ACL calculation, loans are segregated into pools with similar risk characteristics based on the loan class to estimate the ACL. Estimated losses within each pool are calculated based on the probability of default (PD) and loss given default (LGD) for loans within similar loan pools. The ACL also relies on forecasts of relevant economic conditions and other factors that, in the opinion of management, should be considered. BancShares uses a one-year reasonable and supportable forecast period that incorporates unemployment projections at the time of evaluation. At the end of the one-year forecast period, BancShares applies a 12-month straight-line reversion period to historical averages.

Model outputs may be adjusted through a qualitative assessment to reflect economic conditions and trends not captured within the models including credit quality, concentrations, and significant policy and underwriting changes.

For loans in excess of \$100,000 that do not share risk characteristics with other loans in the pool, the ACL is evaluated on an individual basis. Impairment on individually-evaluated loans is measured by either the present value of expected cash flows or the expected value from liquidation of the loan collateral, if the loan is identified as collateral dependent.

*Accrued Interest Receivable*

BancShares has elected not to measure an ACL for accrued interest receivable and has excluded it from the amortized cost basis of loans. Accrued interest is reversed or written off against interest income when determined to be uncollectible.

*Unfunded Commitments*

BancShares maintains a reserve for unfunded commitments for off-balance sheet exposures related to unfunded balances for existing lines of credit, commitments to extend future credit, and commitments for letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The reserve reflects the probability of funding as well as an expectation of future losses, with appropriate PD and LGD factors being considered. The reserve for unfunded commitments, which is included in other liabilities, was \$1.7 million at December 31, 2025, and \$1.5 million at December 31, 2024.

The ACL for loans is reported as a separate item in the consolidated balance sheets, while the reserve for unfunded commitments is included within other liabilities. The provision or benefit for credit losses related to both loans and unfunded commitments is reported in the consolidated statements of income and comprehensive income as provision for credit losses.

Management believes the ACL is calculated in accordance with US GAAP. While management uses the best information available to make evaluations, future adjustments may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Southern's ACL. Such agencies may require Southern to recognize adjustments to the ACL based on the examiners' judgments about information available to them at the time of their examinations.

**Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated lives of the assets, ranging from 15 to 39 years for buildings and improvements and 3 to 9 years for furniture and equipment.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Leases**

Southern leases certain office facilities and office equipment under operating leases. Southern also subleases certain office facilities and owns certain office facilities that are leased to outside parties; however, such leases are not significant. For operating leases other than those considered to be short-term, Southern recognizes operating lease right of use assets and related operating lease liabilities which are reported on the consolidated balance sheets. Southern does not recognize short-term operating leases on the consolidated balance sheets. A lease is considered short-term if it has an original term of 12 months or less and does not have a purchase option that is likely to be exercised.

In recognizing operating lease right of use assets and related operating lease liabilities, Southern has elected the practical expedient that allows for lease and non-lease components to be accounted for as a single lease component. Lease payments over the expected term are discounted using Southern's incremental borrowing rate referenced to the Federal Home Loan Bank advance rates for borrowings of similar term. When appropriate, Management also considers renewal and termination options in the determination of the expected term of each lease. At December 31, 2025 and 2024, leases for office facilities have terms, including renewal options that Management is reasonably certain will be exercised, that extend up to ten years. Southern's leases do not contain material residual value guarantees or material restrictive covenants.

**Stock in Federal Home Loan Bank of Atlanta**

Membership in the Federal Home Loan Bank of Atlanta (FHLB) requires an initial investment in FHLB stock and additional stock purchases based on the amount of advance activity. FHLB stock does not have a readily determinable fair value because it is only redeemable by the issuer. As a result, this security is carried at cost and is periodically evaluated for impairment.

**Derivative Instruments and Hedging Activities**

*ASC 815, Derivatives and Hedging* (ASC 815) provides the disclosure requirements for derivatives and hedging activities to provide an understanding of how and why an entity uses derivative instruments, how an entity accounts for derivative instruments and related hedged items, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, BancShares records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether hedge accounting was initially elected, and whether the hedging relationship continues to satisfy the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge.

Certain derivatives require collateral to be delivered by either party to secure its obligation to the counterparty. Collateral held offsets the related net receivable position, and collateral delivered offsets the related net payable position.

BancShares has elected to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Other Real Estate Owned (OREO)**

OREO acquired through or in lieu of foreclosure is held for sale and is stated at the estimated fair market value of the property, less estimated disposal costs at time of foreclosure. Thereafter, OREO is carried at the lower of cost or net realizable value. At least annually, current valuations in the form of internal or external appraisals are obtained for any OREO and carrying values are adjusted, if required, with a charge to current expense for adjustments to reflect the current appraised values less the estimated cost to sell.

BancShares estimates fair value at the asset's fair market value less disposal costs using management's assumptions, which are based on current market trends and historical losses for similar assets. Any deficiency in the estimated fair market value over the loan balance is charged to the ACL at the time of the foreclosure. There was no OREO outstanding at December 31, 2025 or December 31, 2024.

**Goodwill and Intangible Assets**

Goodwill arising from acquisitions is not amortized but is reviewed for potential impairment at least annually or more frequently if events or circumstances indicate a potential impairment. BancShares concluded that goodwill was not impaired as of December 31, 2025; however, future events impacting financial institutions could negatively impact BancShares' goodwill asset in the future.

Intangible assets include mortgage servicing rights (MSRs), representing the estimated value of the right to service residential mortgage loans for others. Capitalization of MSRs occurs when the underlying loans are sold with servicing retained by Southern. Capitalized MSRs are amortized over the projected servicing life of the underlying loans.

As of December 31, 2025, BancShares had goodwill and intangible assets totaling \$33.9 million, compared to \$33.2 million at December 31, 2024. Management evaluated BancShares' existing intangible assets and goodwill for impairment as of September 30, 2025. Amortization expense associated with intangible assets was \$1.1 million and \$1.0 million for the years ended December 31, 2025 and 2024, respectively.

The following is a summary of the gross carrying amounts, accumulated amortization and net carrying amounts of amortized intangible assets and the gross carrying amount of unamortized intangible assets as of December 31, 2025 and December 31, 2024:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
<u>December 31, 2025</u>			
Amortized intangible assets:			
Mortgage servicing rights	\$ 21,738	\$ 14,447	\$ 7,291
Goodwill	26,649		
<u>December 31, 2024</u>			
Amortized intangible assets:			
Mortgage servicing rights	19,910	13,366	6,544
Goodwill	26,649		

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Goodwill and Intangible Assets (continued)**

At December 31, 2025, the scheduled amortization expense for intangible assets is as follows:

2026	\$	720
2027		634
2028		580
2029		534
2030		502
Thereafter		4,321
Total	\$	<u>7,291</u>

The actual amortization expense in future periods may be subject to change based on changes in the useful life of the assets, expectations for loan prepayments, future acquisitions and future loan sales.

**Bank-Owned Life Insurance**

Southern has purchased life insurance policies on certain current and past key employees and directors where the insurance policy benefits and ownership are retained by BancShares. These policies are recorded at their cash surrender value. Income from these policies and changes in the net cash surrender value are recorded in noninterest income. The cash value accumulation is permanently tax deferred if the policy is held to the insured person's death and certain other conditions are met.

**Income Taxes**

BancShares 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 BancShares' assets and liabilities at enacted rates expected to be in effect when such amounts are realized or settled.

Recognition of deferred tax assets is based on management's belief that it is more likely than not that the tax benefit associated with certain temporary differences will be realized. A valuation allowance is recorded for deferred tax assets when the more likely than not standard is not met.

**Shareholders' Equity**

Common shareholders are entitled to one vote per share and preferred series B and C shareholders are entitled to one vote for each 38 shares owned of a class. Dividends on BancShares' common stock may be paid only after annual dividends of \$0.90 per share on both preferred series B and C shares have been paid. Share activity and other information for each of the preferred and common stock issues is presented below:

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Shareholders' Equity (continued)**

	Non-cumulative Preferred Series B	Non-cumulative Preferred Series C	Common
December 31, 2023	251,237	35,561	76,778
Purchase and retirement	(4,224)	-	(859)
Shares issued	-	-	24
December 31, 2024	247,013	35,561	75,943
Purchase and retirement	(2,606)	-	(721)
Shares issued	-	-	30
December 31, 2025	244,407	35,561	75,252
Shares authorized	408,728	43,631	158,485
Par value	None	None	\$ 5.00
<u>Liquidation value</u>			
December 31, 2024	\$ 2,470	\$ 356	N/A
December 31, 2025	2,444	356	N/A

Although there were no shares outstanding or activity in any period presented, there were 500,000 shares of \$0.01 par value preferred stock authorized as of December 31, 2025.

Earnings per common share are computed by dividing income applicable to common shares by the weighted average number of common shares outstanding during the period. Income applicable to common shares represents net income reduced by dividends paid to preferred shareholders. BancShares has no potentially dilutive securities.

Earnings per common share are calculated based on the following amounts for the years ended December 31:

	2025	2024
Net income (thousands)	\$ 68,275	\$ 157,824
Less: preferred dividends (thousands)	(254)	(256)
Net income applicable to common shares (thousands)	\$ 68,021	\$ 157,568
Weighted average common shares outstanding during the period	75,471	76,337
Earnings per common share outstanding	\$ 901.29	\$ 2,064.11

On January 16, 2024, BancShares' board of directors approved a stock repurchase program that expired on March 31, 2025, and authorized the repurchase of up to 4,000 shares of common stock. The repurchase program stipulated that the aggregate dollar amount paid during any consecutive twelve-month period to repurchase shares of common and preferred stock may not equal or exceed three percent of consolidated shareholders' equity. During 2024, BancShares paid \$5.2 million to repurchase shares of common and preferred stock pursuant to authorized repurchase programs, including \$1.9 million during the first quarter of 2024 that related to an earlier repurchase authorization that expired on March 31, 2024. The remaining \$3.3 million of 2024 purchases related to the authorization that expired on March 31, 2025.

On January 21, 2025, BancShares' board of directors approved a successor stock repurchase program that expires on March 31, 2026, and authorizes the repurchase of up to 4,000 shares of common stock. The repurchase program stipulates that the aggregate dollar amount paid during any consecutive twelve-month period to repurchase shares of common and preferred stock may not equal or exceed three percent of consolidated shareholders' equity. During 2025, BancShares paid \$6.2 million to repurchase shares of common and preferred stock pursuant to authorized repurchase programs, including \$2.3 million during the first quarter of 2025 that related to the repurchase authorization that expired on March 31, 2025. The remaining \$3.9 million of 2025 purchases relates to the authorization that expires on March 31, 2026. The remaining repurchase limit under the repurchase program that will expire on March 31, 2026, is \$17.9 million as of December 31, 2025.

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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Shareholders' Equity (continued)**

On January 20, 2026, BancShares' board of directors approved a stock repurchase program that expires on March 31, 2027, and authorizes the repurchase of up to 4,000 shares of common stock. The repurchase program stipulates that the aggregate dollar amount paid during any consecutive twelve-month period to repurchase shares of common and preferred stock may not equal or exceed three percent of consolidated shareholders' equity.

On April 16, 2024, BancShares' board of directors approved the Director Shared Purchase Plan ("DSPP"), which allows each director to purchase up to five shares of common stock per year with the opportunity to receive additional cash compensation equal to 50 percent of the purchase price, subject to a maximum per director of \$5,000 in 2024, \$7,500 in 2025, and \$10,000 in each subsequent year while the DSPP remains in effect. During 2025 and 2024, BancShares issued 30 and 24 shares of common stock, respectively, pursuant to the DSPP.

**Comprehensive Income**

Comprehensive income is defined as the change in equity during a period for non-owner transactions and includes net income and other comprehensive income (loss). Other comprehensive income (loss) includes revenues, expenses, gains, and losses that are excluded from earnings under current accounting standards. Components of other comprehensive income (loss) for BancShares consist of the unrealized gains and losses, net of taxes, in BancShares' available for sale securities portfolio and changes in the defined benefit pension plan obligation.

**Revenue Recognition**

BancShares generally acts in a principal capacity, on its own behalf, in its contracts with customers. In these transactions, BancShares recognizes revenues and the related costs to generate those revenues on a gross basis. In certain circumstances BancShares acts in an agent capacity on behalf of the customers with other entities and recognize revenues and the related costs to provide BancShares' services on a net basis. Business lines where BancShares acts as an agent include interchange and debit card income, merchant services and check sales. Descriptions of BancShares' noninterest revenue-generating activities are broadly segregated as follows:

*Service charges on deposit accounts* - These deposit account-related fees represent monthly account maintenance and transaction-based service fees such as overdraft fees, stop payment fees and charges for issuing cashier's checks and money orders. For account maintenance services, revenue is recognized at the end of the statement period when BancShares' performance obligation has been satisfied. All other revenues from transaction-based services are recognized at a point in time when the performance obligation has been completed.

*Other service charges and fees* - These include, but are not limited to, check cashing fees, internet banking fees, wire transfer fees and safe deposit fees. The performance obligation is fulfilled, and revenue is recognized, at the point in time the requested service is provided to the customer.

*Interchange and debit card revenue* - These represent interchange fees, included in other service charges and fees, from customer debit and credit card transactions that are earned at the time a cardholder engages in a transaction with a merchant. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the card transaction. Costs associated with interchange and debit card revenue are netted against the fee income from such transactions.

*Sales of OREO* - OREO property consists of foreclosed real estate used as collateral for loans. Revenue is generally recognized on the date of sale where the performance obligation of providing access and transferring control of the specified OREO property to the buyer in good faith and good title is satisfied.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Revenue Recognition (continued)**

*Wealth management revenue* - These primarily represent annuity fees, sales commissions, management fees, insurance sales, and advisory fees. The performance obligation for wealth management is the provision of services to place annuity products issued by the counterparty to investors, and the provision of services to manage the client's assets, including brokerage custodial and other management services. Wealth management revenue is recognized over the period in which services are performed, and is based on a percentage of the value of the assets under management/administration. This revenue is either fixed or variable based on account type, or transaction-based.

*Merchant services*- These represent fees charged to merchants, included in other noninterest income, for providing the ability to accept and process debit and credit card transactions. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the card transaction. Costs associated with merchant services transactions are netted against the fee income from such transactions.

*Check sales* - These represent the fees, included in other noninterest income, charged for checks sold to customers. A contract has been established with a third party vendor to provide the checks to the customer. Southern receives a commission based upon contractual terms with the third party vendor and the volume of sales that occur over a period of time. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the sale of the checks. Costs associated check sales transactions are netted against the fee income from such transactions.

*Other* - This consists of several forms of recurring revenue such as dividends on equity investments without a readily determinable fair value, FHLB dividends, servicing income, and income earned on changes in the cash surrender value of bank-owned life insurance and related death benefits, all of which are outside the scope of FASB ASC Topic 606, *Revenue from Contracts with Customers*. The remaining miscellaneous income is the result of immaterial transactions where revenue is recognized when, or as, the performance obligation is satisfied.

**Recent Accounting Pronouncements**

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by BancShares.

In November 2024, the Financial Accounting Standards Board ("FASB") issued ASU 2024-03 Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses ("ASU 2024-03"). ASU 2024-03 requires disaggregation of certain expense captions into specified categories within the footnotes. The amendments in this standard will be effective for the Company on January 1, 2027. The Company is currently evaluating the impact the amendments will have on the consolidated financial statements and related disclosures.

On November 25, 2025, the FASB issued ASU 2025-09, Derivatives and Hedging (Topic 815): Hedge Accounting Improvements ("ASU 2025-09"). ASU 2025-09 seeks to clarify and improve hedge accounting guidance in Topic 815 and to address implementation issues related to previously released guidance. ASU 2025-09 is effective for BancShares for fiscal years beginning after December 15, 2027. Early adoption in interim periods is permitted. BancShares continues to assess ASU 2025-09, but currently expects adoption will not have a material impact on our consolidated financial statements.

In December 2025, the FASB issued ASU 2025-12 "Codification Improvements" ("ASU 2025-12"). The amendments represent changes to the Codification to make incremental improvements to GAAP including technical corrections, clarifications, and minor improvements. The amendments in this standard will be effective for the Company on January 1, 2027. The Company does not believe this standard will have a material impact on its consolidated financial statements.

From time to time, the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements in the consolidated financial statements of BancShares and monitors the status of changes to and proposed effective dates of exposure drafts.

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**Note 2. Investment Securities**

The amortized cost and estimated fair values of investment securities at December 31, 2025 and 2024 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2025</u>				
Investments in marketable equity securities	\$ 31,090	\$ 441,177	\$ (425)	\$ 471,842
Investments securities available for sale:				
US Treasuries and government-sponsored entities debt	\$ 338,081	\$ 707	\$ (24,701)	\$ 314,087
Corporate debt securities	500	-	(35)	465
Obligations of states and political subdivisions	223,401	32	(31,119)	192,314
Government-sponsored mortgage-backed securities	847,509	1,324	(102,125)	746,708
Total investment securities available for sale	<u>\$ 1,409,491</u>	<u>\$ 2,063</u>	<u>\$ (157,980)</u>	<u>\$ 1,253,574</u>
<u>December 31, 2024</u>				
Investments in marketable equity securities	\$ 32,098	\$ 434,006	-	\$ 466,104
Investments securities available for sale:				
US Treasuries and government-sponsored entities debt	\$ 353,582	\$ 4	\$ (43,382)	\$ 310,204
Corporate debt securities	11,400	-	(244)	11,156
Obligations of states and political subdivisions	224,604	-	(41,582)	183,022
Government-sponsored mortgage-backed securities	856,929	-	(147,984)	708,945
Total investment securities available for sale	<u>\$ 1,446,515</u>	<u>\$ 4</u>	<u>\$ (233,192)</u>	<u>\$ 1,213,327</u>

\*Government-sponsored entities debt consists of debt securities offered by Federal Home Loan Mortgage Corporation, Federal National Mortgage Corporation, Federal Home Loan Bank, Small Business Administration ("SBA") and Federal Farm Credit Banks.

Investments with a carrying value of \$908.2 million were pledged at December 31, 2025 to secure public deposits and outstanding short-term borrowings, and to provide access to additional borrowing capacity, compared to \$995.3 million at December 31, 2024.

The following table identifies investments with unrealized loss positions as of December 31, 2025 and 2024:

	Less Than 12 Months		12 Months or Longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<u>December 31, 2025</u>						
U.S. Treasuries and government-sponsored entities debt	\$ 15	\$ 18,601	\$ 24,686	\$ 233,707	\$ 24,701	\$ 252,308
Corporate debt securities	-	-	35	465	35	465
Obligations of states and political subdivisions	83	1,577	31,036	187,909	31,119	189,486
Government-sponsored mortgage-backed securities	47	7,009	102,078	640,278	102,125	647,287
Total	<u>\$ 145</u>	<u>\$ 27,187</u>	<u>\$ 157,835</u>	<u>\$ 1,062,359</u>	<u>\$ 157,980</u>	<u>\$ 1,089,546</u>
<u>December 31, 2024</u>						
U.S. Treasuries and government-sponsored entities debt	\$ 148	\$ 18,214	\$ 43,234	\$ 280,677	\$ 43,382	\$ 298,891
Corporate debt securities	-	-	244	11,156	244	11,156
Obligations of states and political subdivisions	43	1,504	41,539	181,518	41,582	183,022
Government-sponsored mortgage-backed securities	326	10,048	147,658	698,897	147,984	708,945
Total	<u>\$ 517</u>	<u>\$ 29,766</u>	<u>\$ 232,675</u>	<u>\$ 1,172,248</u>	<u>\$ 233,192</u>	<u>\$ 1,202,014</u>

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**Note 2. Investment Securities (continued)**

The following table identifies the number of securities were in an unrealized loss position at December 31, 2025 and 2024:

	December 31,	
	2025	2024
US Treasuries and government-sponsored entities debt	32	40
Corporate debt securities	1	2
Obligations of states and political subdivisions	246	250
Government-sponsored mortgage-backed securities	129	154
Total	<u>408</u>	<u>446</u>

Unrealized losses existing at December 31, 2025 and 2024, primarily resulted from the increase in market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased or until the security matures or is called by the issuer.

As of December 31, 2025 and 2024, there was no intent to sell any of the securities classified as available for sale that are in an unrealized loss position. Furthermore, it is not likely that BancShares will have to sell any such securities before a recovery of the carrying value. Management has evaluated the securities in an unrealized loss position and has not identified any credit-related impairment.

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2025, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Repayments of the government-sponsored mortgage-backed securities are dependent on the repayments of the underlying loan balances.

	<u>Amortized cost</u>	<u>Fair value</u>
<u>December 31, 2025</u>		
US Treasuries and government-sponsored entities debt		
Due after one year through five years	\$ 149,993	\$ 140,596
Due after ten years	188,088	173,491
	<u>338,081</u>	<u>314,087</u>
Corporate debt securities		
Due within one year	-	-
Due after five years through ten years	500	465
	<u>500</u>	<u>465</u>
Obligations of states and political subdivisions		
Due after five years through ten years	33,006	29,807
Due after ten years	190,395	162,507
	<u>223,401</u>	<u>192,314</u>
Government-sponsored mortgage-backed securities	847,509	746,708
	<u>\$ 1,409,491</u>	<u>\$ 1,253,574</u>

Sales and issuer calls of investment securities available-for-sale having a cost basis of \$95.2 million resulted in gross realized losses of \$4.5 million in 2025. The proceeds from such sales and issuer calls were \$90.7 million for the year ended December 31, 2025. Proceeds from liquidation of marketable equity securities totaled \$10.0 million during 2025, including \$5.4 million of realized gains. No marketable securities were liquidated during 2024.

Issuer calls of securities available for sale having a cost basis of \$43,000 in 2024 resulted in gross realized losses of \$1,000 in 2024. The proceeds from such sales and issuer calls were \$42,000 for the year ended December 31, 2024.

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**Note 3. Loans and Allowance for Credit Losses**

The following is a summary of loans outstanding at December 31, 2025 and 2024.

	December 31	
	2025	2024
Commercial:		
Construction and land development - non-residential	\$ 155,709	\$ 143,908
Agricultural	183,204	201,906
Commercial and industrial	238,210	226,247
Commercial mortgage - owner-occupied/multi-family	951,755	863,800
Commercial mortgage - non-owner occupied	536,375	519,018
Commercial other	45,457	44,274
Non-commercial:		
Construction and land development - residential	72,066	73,186
Consumer	26,100	24,072
Residential mortgage	920,360	897,205
Revolving mortgage	286,687	254,840
Demand overdrafts	467	470
Total loans	<u>\$ 3,416,390</u>	<u>\$ 3,248,926</u>
Loans held for sale	\$ 11,461	\$ 12,431
Loans serviced for others	784,237	727,596

Net deferred fees included within the respective balances for each loan type presented above total \$4.4 million and \$4.0 million at December 31, 2025 and 2024, respectively. Accrued loan interest included in accrued interest receivable in the consolidated balance sheets was \$13.1 million and \$12.2 million, respectively, and was excluded from the estimate of credit losses.

Loans totaling \$3.4 billion and \$3.2 billion, respectively, at December 31, 2025 and 2024, were pledged to third parties to secure outstanding borrowings and unfunded credit lines available for contingent funding purposes.

Total loans to directors, executive officers and related individuals and organizations were \$723,000 and \$769,000 at December 31, 2025 and 2024, respectively. During 2025, there were \$941,000 of advances of these loans made to this group and repayments totaling \$987,000. There were no restructured or nonaccrual loans to directors, executive officers or related individuals and organizations. All extensions of credit to such persons have been made in the ordinary course of business.

Each portfolio segment and the classes within those segments are subject to risks that could have an adverse impact on the credit quality of the loan portfolio. Management has identified the most significant risks as described below which are generally similar among the segments and classes. While the list is not exhaustive, it provides a description of the risks that management has determined are the most significant.

*Commercial loans*

Each commercial loan or lease is underwritten based primarily upon the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. A complete understanding of the borrower's businesses including the experience and background of the principals is obtained prior to approval. To the extent that the loan or lease is secured by collateral, which is true for the majority of commercial loans, the likely value of the collateral and what level of strength the collateral brings to the transaction is evaluated. To the extent that the principals or other parties provide personal guarantees, the relative financial strength and liquidity of each guarantor is assessed. Common risks to each class of commercial loans include general economic conditions within the markets BancShares serves, as well as risks that are specific to each transaction including demand for products and services, personal events such as disability or change in marital status, and reductions in the value of collateral.

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**Note 3. Loans and Allowance for Credit Losses (continued)**

In addition to these common risks for commercial loans generally, additional risks are inherent in specific classes of commercial loans.

*Construction and land development – non-residential* - construction and land development - non-residential loans are highly dependent on the supply and demand for commercial real estate in the markets served by BancShares as well as the demand for newly constructed residential homes and lots that customers are developing. Deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for customers.

*Agricultural, commercial and industrial, commercial mortgage-owner occupied/multi-family, and commercial mortgage-non-owner occupied* - agricultural, commercial and industrial, commercial mortgage-owner occupied/multi-family, and commercial mortgage-non-owner occupied are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a customer's business results are significantly unfavorable versus the original projections, the ability for the loan to be serviced on a basis consistent with the contractual terms may be at risk. The performance of agricultural loans is highly dependent on favorable weather, reasonable costs for seed and fertilizer, and the ability to successfully market the product at a profitable margin. The demand for these products is also dependent on macroeconomic conditions that are beyond the control of the borrower. While these loans are generally secured by real property, personal property, or business assets such as inventory or accounts receivable, it is possible that the liquidation of the collateral will not fully satisfy the obligation.

*Commercial other* - commercial other loans consist primarily of loans to municipalities and not for profit organizations, such as volunteer fire departments. Commercial other loans are dependent on the municipality or not for profit organization's ability to generate adequate cash flows to service the loan, primarily through tax revenues, fee revenues, federal and state grants, and donations by local citizens. As such, deterioration in the general economy could impact a borrower's ability to repay the loan due to declines in a municipality's tax base, available federal and state grants, and citizen's ability to provide donations. These loans are primarily secured by equipment used by the municipality or not for profit entity.

*Non-commercial loans*

Each non-commercial loan is underwritten based primarily upon the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. A complete understanding of the borrower's financial situation is obtained prior to loan approval. To the extent that the loan is secured by collateral, the likely value of that collateral is considered in the credit decision. Common risks to each class of non-commercial loans include risks that are not specific to individual transactions such as general economic conditions within the markets BancShares serves, particularly unemployment and potential declines in real estate values. Personal events such as disability or change in marital status also add risk to non-commercial loans.

In addition to the common risks for the majority of non-commercial loans, additional risks are inherent in certain classes of non-commercial loans, as follows:

*Revolving mortgage* - revolving mortgage loans are often secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render a second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lien holders that may further weaken the collateral position. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.

*Consumer and demand overdrafts* - the consumer loan portfolio includes loans secured by personal property such as automobiles, marketable securities, other titled recreational vehicles including boats and motorcycles, as well as unsecured consumer debt. Demand overdrafts represent the aggregate balance of overdrawn deposit account balances that are reclassified as loans. If secured, the value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since the date of loan origination in excess of principal repayment.

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**Note 3. Loans and Allowance for Credit Losses (continued)**

*Residential mortgage and construction and land development – residential* - residential mortgage and construction and land development - residential loans are made to individuals and are typically secured by 1-4 family residential property, undeveloped land, and partially developed land in anticipation of pending construction of a personal residence. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Such a decline in value could lead to foreclosures and losses within the banking industry. Non-commercial construction and land development projects can experience delays in completion and cost overruns that exceed the borrower’s financial ability to complete the project. Such cost overruns can result in foreclosure of partially completed and unmarketable collateral.

The aging of the outstanding loans and leases, by class, at December 31, 2025 and 2024 is provided in the following tables. Loans and leases less than 30 days past due are considered current, as various grace periods allow borrowers to make payments within a stated period after the due date and remain in compliance with the respective agreement.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Current	Total Loans
December 31, 2025					
Commercial:					
Construction and land development - non-residential	\$ 3	\$ -	\$ -	\$ 155,706	\$ 155,709
Agricultural	19	-	-	183,185	183,204
Commercial and industrial	233	51	-	237,926	238,210
Commercial mortgage - owner-occupied/multi-family	480	-	-	951,275	951,755
Commercial mortgage - non-owner occupied	-	-	-	536,375	536,375
Commercial other	-	-	-	45,457	45,457
Non-commercial:					
Construction and land development - residential	2,294	-	-	69,772	72,066
Consumer	71	-	-	26,029	26,100
Residential mortgage	1,608	1,245	-	917,507	920,360
Revolving mortgage	523	-	-	286,164	286,687
Demand overdrafts	-	-	-	467	467
Total loans	<u>\$ 5,231</u>	<u>\$ 1,296</u>	<u>\$ -</u>	<u>\$ 3,409,863</u>	<u>\$ 3,416,390</u>

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**Note 3. Loans and Allowance for Credit Losses (continued)**

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Current	Total Loans
<u>December 31, 2024</u>					
Commercial:					
Construction and land development - non-residential	\$ 133	\$ -	\$ -	\$ 143,775	\$ 143,908
Agricultural	4	-	-	201,902	201,906
Commercial and industrial	1,035	9	136	225,067	226,247
Commercial mortgage - owner-occupied/multi-family	314	-	1,188	862,298	863,800
Commercial mortgage - non-owner occupied	937	-	-	518,081	519,018
Commercial other	-	-	-	44,274	44,274
Non-commercial:					
Construction and land development - residential	1	-	-	73,185	73,186
Consumer	69	10	43	23,950	24,072
Residential mortgage	1,156	483	306	895,260	897,205
Revolving mortgage	115	107	177	254,441	254,840
Demand overdrafts	-	-	-	470	470
<b>Total loans</b>	<b>\$ 3,764</b>	<b>\$ 609</b>	<b>\$ 1,850</b>	<b>\$ 3,242,703</b>	<b>\$ 3,248,926</b>

Loans are closely monitored by management for changes in quality. Southern utilizes a risk rating matrix to assign a risk rating to each of its loans. A description of the general characteristics of risk ratings is as follows:

- Pass – assets assigned a pass grade to not display any of the characteristics that would result in an adverse classification.
- Below average - This grade includes loans to borrowers with credit history that reflects delinquencies with justifiable explanation or no credit history. Typically these borrowers do not have a deposit relationship with Southern and/or have made an insignificant investment in the loan. Included in this grade are loans to borrowers with marginal cash flows and net worth or who reside outside of the trade area. Also, loans for which repayment is dependent upon sales in unproven or unstable markets fall into this grade.
- Special mention - This grade includes loans for which repayment terms exceed policy or with no significant principal reduction in the past 12 months, are in an industry that is deteriorating, or that repayment is based upon the sale of collateral, guarantors, or government guarantees. Also included are real estate under construction for speculative purposes and the borrower does not have a long history of sales. This grade is intended to be temporary and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation.
- Substandard - Substandard loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility that Southern will sustain some loss if the deficiency is 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 known facts, conditions, and values, highly questionable and improbable.
- Loss - Loans are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

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**Note 3. Loans and Allowance for Credit Losses (continued)**

**Allowance for Credit Losses (ACL)**

The ACL represents management’s best estimate of credit losses expected over the life of the loan or lease, adjusted for expected contractual payments and the impact of prepayment expectations. Prepayment assumptions were developed through a review of BancShares’ historical prepayment activity. Estimates for loan losses are determined by analyzing quantitative and qualitative components as of the evaluation date. Adjustments to the ACL are recorded with a corresponding entry to provision for credit losses.

For the ACL calculation, loans are segregated into pools with similar risk characteristics based on the loan class to estimate the ACL. Estimated losses within each pool are calculated based on the probability of default (PD) and loss given default (LGD) for loans within similar loan pools observed in peer data. The ACL also relies on forecasts of relevant economic conditions and other factors that, in the opinion of management, should be considered. BancShares uses a one-year reasonable and supportable forecast period that incorporates unemployment projections at the time of evaluation. At the end of the one-year forecast period, BancShares applies a 12-month straight-line reversion period to historical averages. Model outputs may be adjusted through a qualitative assessment to reflect economic conditions and trends not captured within the models including credit quality, concentrations, and significant policy and underwriting changes.

For loans that do not share risk characteristics with other loans in the pool, the ACL is evaluated on an individual basis. Impairment on individually-evaluated loans is measured by either the present value of expected cash flows or the expected value from liquidation of the loan collateral, if the loan is identified as collateral dependent.

Model outputs may be adjusted through a qualitative assessment to reflect economic conditions and trends not otherwise captured within the ACL model. These qualitative adjustments may consider asset quality trends, concentrations existing within the loan portfolio, and risks resulting from organizational structure, significant policy and underwriting changes. Adjustments may also be made for economic factors not reflected in the projection utilized in the quantitative calculation and risks resulting from changes in the lending products offered, as well as other factors that management believes should be considered in the ACL calculation.

The following table provides loan balances at December 31, 2025 and 2024 that were on nonaccrual status.

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Commercial:		
Construction and land development - non-residential	\$ 17	\$ 21
Agricultural	165	306
Commercial and industrial	79	532
Commercial mortgage - owner-occupied/multi-family	1,822	2,524
Commercial mortgage - non-owner occupied	576	1,179
Commercial other	20	-
Non-commercial:		
Consumer	-	43
Residential mortgage	1,458	1,127
Revolving mortgage	266	276
Total loans	<u>\$ 4,403</u>	<u>\$ 6,008</u>

At December 31, 2025 and 2024, there were no loans past due more than 90 days that were accruing.

Nonaccrual loans totaling \$3.1 million and \$3.4 million, respectively, at December 31, 2025 and 2024, were individually evaluated for impairment. At December 31, 2025, one loan was determined to be impaired, and the ACL was increased \$19,000, compared to \$53,000 as of December 31, 2024.

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**Note 3. Loans and Allowance for Credit Losses (continued)**

The following table summarizes the credit risk profile by risk rating as of December 31, 2025 and 2024.

	Pass	Below Average	Special Mention	Substandard	Total Loans
<u>December 31, 2025</u>					
Commercial:					
Construction and land development - non-residential	\$ 145,816	\$ 9,764	\$ 11	\$ 118	\$ 155,709
Agricultural	146,775	35,815	361	253	183,204
Commercial and industrial	197,766	40,276	4	164	238,210
Commercial mortgage - owner-occupied/multi-family	824,898	121,819	1,914	3,124	951,755
Commercial mortgage - non-owner occupied	447,133	82,100	6,566	576	536,375
Commercial other	45,287	150	-	20	45,457
Non-commercial:					
Construction and land development - residential	71,073	993	-	-	72,066
Consumer	24,840	1,153	90	17	26,100
Residential mortgage	868,511	46,823	3,294	1,732	920,360
Revolving mortgage	262,771	22,094	998	824	286,687
Demand overdrafts	467	-	-	-	467
Total loans	<u>\$ 3,035,337</u>	<u>\$ 360,987</u>	<u>\$ 13,238</u>	<u>\$ 6,828</u>	<u>\$ 3,416,390</u>
<u>December 31, 2024</u>					
Commercial:					
Construction and land development - non-residential	\$ 134,288	\$ 9,504	\$ -	\$ 116	\$ 143,908
Agricultural	162,592	38,595	113	606	201,906
Commercial and industrial	179,346	44,473	1,829	599	226,247
Commercial mortgage - owner-occupied/multi-family	741,382	110,073	8,522	3,823	863,800
Commercial mortgage - non-owner occupied	446,756	68,896	1,890	1,476	519,018
Commercial other	44,077	177	-	20	44,274
Non-commercial:					
Construction and land development - residential	69,813	3,373	-	-	73,186
Consumer	22,556	1,326	128	62	24,072
Residential mortgage	842,148	51,892	1,100	2,065	897,205
Revolving mortgage	237,883	16,021	254	682	254,840
Demand overdrafts	470	-	-	-	470
Total loans	<u>\$ 2,881,311</u>	<u>\$ 344,330</u>	<u>\$ 13,836</u>	<u>\$ 9,449</u>	<u>\$ 3,248,926</u>

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**Note 3. Loans and Allowance for Credit Losses (continued)**

The following table summarizes the credit risk profile by year of origination as of December 31, 2025.

	2021	2022	2023	2024	2025	Prior	Revolving	Revolving	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total recorded investment	468,046	670,228	347,650	302,530	500,494	671,019	454,242	2,181	3,416,390
Total current period gross charge-off	(24)	(25)	(23)	(121)	(347)	(12)	(156)	-	(708)
Construction and land development - non-residential									
Pass	12,981	16,583	24,455	30,062	48,326	11,530	1,879	-	145,816
Below average	1,029	430	526	1,196	3,128	779	2,432	244	9,764
Special mention	-	-	-	-	-	11	-	-	11
Substandard	17	-	-	-	-	31	70	-	118
Total	14,027	17,013	24,981	31,258	51,454	12,351	4,381	244	155,709
Current period gross writeoff	-	-	-	-	-	(12)	-	-	(12)
Agricultural									
Pass	10,163	10,167	7,329	6,374	19,856	44,128	48,758	-	146,775
Below average	2,213	3,081	2,862	3,143	3,370	10,596	10,550	-	35,815
Special mention	-	5	315	41	-	-	-	-	361
Substandard	38	-	-	-	-	139	76	-	253
Total	12,414	13,253	10,506	9,558	23,226	54,863	59,384	-	183,204
Current period gross writeoff	-	-	-	-	-	-	(8)	-	(8)
Commercial and industrial									
Pass	12,298	19,658	20,563	30,629	55,475	15,438	43,536	169	197,766
Below average	7,331	4,557	6,590	4,074	3,970	6,885	6,427	442	40,276
Special mention	1	-	-	-	-	-	3	-	4
Substandard	5	63	-	-	-	139	96	-	164
Total	19,635	24,278	27,153	34,703	59,445	22,323	50,062	611	238,210
Current period gross writeoff	-	-	(20)	-	-	-	(10)	-	(30)
Commercial mortgage - owner-occupied/multi-family									
Pass	138,920	136,759	78,678	99,201	115,962	224,915	29,936	527	824,898
Below average	12,072	30,486	21,767	6,487	4,404	42,262	4,341	-	121,819
Special mention	183	188	59	196	122	1,166	-	-	1,914
Substandard	157	507	6	-	-	2,454	-	-	3,124
Total	151,332	167,940	100,510	105,884	120,488	270,797	34,277	527	951,755
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Commercial mortgage - non-owner occupied									
Pass	73,533	130,800	52,173	18,693	67,934	98,723	5,277	-	447,133
Below average	6,058	18,418	10,052	5,256	11,967	29,649	700	-	82,100
Special mention	-	-	-	-	-	6,566	-	-	6,566
Substandard	-	-	-	-	-	576	-	-	576
Total	79,591	149,218	62,225	23,949	79,901	135,514	5,977	-	536,375
Current period gross writeoff	-	-	-	-	-	-	-	-	-

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY  
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**Note 3. Loans and Allowance for Credit Losses (continued)**

	2021	2022	2023	2024	2025	Prior	Revolving	Revolving Converted to Term	Total
<b>Other commercial</b>									
Pass	\$ 16,145	\$ 17,731	\$ 793	\$ 1,580	\$ 6,739	\$ 2,257	\$ 42	\$ -	\$ 45,287
Below average	-	-	2	-	-	45	103	-	150
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	20	-	-	-	-	-	-
Total	16,145	17,731	815	1,580	6,739	2,302	145	-	45,457
Current period gross writeoff	-	-	-	-	-	-	-	-	-
<b>Construction and land development - residential</b>									
Pass	-	-	670	22,137	41,527	-	6,739	-	71,073
Below average	-	-	-	993	-	-	-	-	993
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total	-	-	670	23,130	41,527	-	6,739	-	72,066
Current period gross writeoff	-	-	-	-	-	-	-	-	-
<b>Consumer</b>									
Pass	1,172	1,419	3,381	2,805	7,910	1,003	7,150	-	24,840
Below average	199	27	76	51	78	213	509	-	1,153
Special mention	-	-	12	38	-	9	31	-	90
Substandard	-	7	-	4	-	-	6	-	17
Total	1,371	1,453	3,469	2,898	7,988	1,225	7,696	-	26,100
Current period gross writeoff	-	(25)	(3)	(56)	(19)	-	(89)	-	(192)
<b>Residential mortgage</b>									
Pass	170,193	269,331	107,589	59,034	103,853	155,565	2,576	370	868,511
Below average	2,877	9,608	7,757	10,452	2,627	13,210	222	70	46,823
Special mention	43	32	1,822	-	211	1,186	-	-	3,294
Substandard	418	159	153	22	-	980	-	-	1,732
Total	173,531	279,130	117,321	69,508	106,691	170,941	2,798	440	920,360
Current period gross writeoff	(24)	-	-	(1)	-	-	-	-	(25)
<b>Revolving mortgage</b>									
Pass	-	18	-	42	2,569	703	259,316	123	262,771
Below average	-	194	-	-	-	-	21,900	-	22,094
Special mention	-	-	-	-	-	-	762	236	998
Substandard	-	-	-	19	-	-	805	-	824
Total	-	212	-	61	2,569	703	282,783	359	286,687
Current period gross writeoff	-	-	-	-	-	-	(48)	-	(48)
<b>Demand overdrafts</b>									
Pass	-	-	-	-	467	-	-	-	467
Total	-	-	-	-	467	-	-	-	467
Current period gross writeoff	-	-	-	(64)	(328)	-	-	-	(392)

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**Note 3. Loans and Allowance for Credit Losses (continued)**

The following table summarizes the credit risk profile by year of origination as of December 31, 2024.

	2020	2021	2022	2023	2024	Prior	Revolving	Revolving	Total
Total recorded investment	\$ 310,128	\$ 534,829	\$ 739,509	\$ 411,818	\$ 333,152	\$ 494,779	\$ 421,051	\$ 3,660	\$ 3,248,926
Total current period gross charge-off	(79)	-	(60)	(149)	(325)	(4)	(215)	-	(832)
Construction and land development - non-residential									
Pass	9,397	16,694	27,345	34,700	32,142	5,289	8,721	-	134,288
Below average	317	1,197	910	4,067	2,580	357	76	-	9,504
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	21	-	-	-	25	70	-	116
Total	9,714	17,912	28,255	38,767	34,722	5,671	8,867	-	143,908
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Agricultural									
Pass	17,112	22,789	13,680	8,676	11,022	33,955	55,127	231	162,592
Below average	1,500	2,088	1,929	3,375	1,391	13,786	14,526	-	38,595
Special mention	-	-	9	-	47	57	-	-	113
Substandard	-	-	16	-	-	440	150	-	606
Total	18,612	24,877	15,634	12,051	12,460	48,238	69,803	231	201,906
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Commercial and industrial									
Pass	10,980	17,854	27,559	31,812	40,652	13,837	36,602	50	179,346
Below average	4,670	9,629	5,766	8,028	3,986	8,333	4,015	46	44,473
Special mention	-	-	410	455	472	103	382	7	1,829
Substandard	99	32	71	-	-	294	103	-	599
Total	15,749	27,515	33,806	40,295	45,110	22,567	41,102	103	226,247
Current period gross writeoff	-	-	(43)	(44)	-	-	(8)	-	(95)
Commercial mortgage - owner-occupied/multi-family									
Pass	95,929	150,779	153,363	74,982	81,650	158,017	26,573	89	741,382
Below average	9,168	10,479	20,527	24,737	6,084	35,980	3,098	-	110,073
Special mention	-	-	-	325	-	7,885	312	-	8,522
Substandard	333	54	286	16	3,134	-	-	-	3,823
Total	105,430	161,312	174,176	100,060	87,734	205,016	29,983	89	863,800
Current period gross writeoff	-	-	-	-	-	-	-	-	-
Commercial mortgage - non-owner occupied									
Pass	53,215	83,997	131,782	60,005	25,310	87,747	4,700	-	446,756
Below average	3,912	5,786	24,197	1,002	3,248	29,054	1,697	-	68,896
Special mention	-	-	1,861	-	-	29	-	-	1,890
Substandard	-	142	156	-	-	1,178	-	-	1,476
Total	57,127	89,925	157,996	61,007	28,558	118,008	6,397	-	519,018
Current period gross writeoff	-	-	-	-	-	-	-	-	-

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**Note 3. Loans and Allowance for Credit Losses (continued)**

	2020	2021	2022	2023	2024	Prior	Revolving	Revolving Converted to Term	Total
<b>Other commercial</b>									
Pass	\$ 146	\$ 18,052	\$ 19,990	\$ 986	\$ 2,099	\$ 2,787	\$ 17	\$ -	\$ 44,077
Below average	56	-	-	7	-	-	114	-	177
Substandard	-	-	-	-	-	-	-	20	20
<b>Total</b>	<b>202</b>	<b>18,052</b>	<b>19,990</b>	<b>993</b>	<b>2,099</b>	<b>2,787</b>	<b>131</b>	<b>20</b>	<b>44,274</b>
Current period gross writeoff	-	-	-	-	-	-	-	-	-
<b>Construction and land development - residential</b>									
Pass	-	336	3,452	20,511	41,772	74	3,668	-	69,813
Below average	-	-	-	810	2,563	-	-	-	3,373
Substandard	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>336</b>	<b>3,452</b>	<b>21,321</b>	<b>44,335</b>	<b>74</b>	<b>3,668</b>	<b>-</b>	<b>73,186</b>
Current period gross writeoff	-	-	-	-	-	-	-	-	-
<b>Consumer</b>									
Pass	1,537	1,817	2,212	4,887	5,414	602	6,087	-	22,556
Below average	4	263	124	101	111	222	501	-	1,326
Special mention	-	-	5	19	51	10	43	-	128
Substandard	-	-	43	-	-	-	19	-	62
<b>Total</b>	<b>1,541</b>	<b>2,080</b>	<b>2,384</b>	<b>5,007</b>	<b>5,576</b>	<b>834</b>	<b>6,650</b>	<b>-</b>	<b>24,072</b>
Current period gross writeoff	-	-	-	(25)	(3)	(4)	(93)	-	(125)
<b>Residential mortgage</b>									
Pass	97,696	189,513	290,016	120,277	62,288	77,528	1,862	2,968	842,148
Below average	2,435	3,138	13,585	11,835	8,158	12,321	395	25	51,892
Special mention	56	51	41	117	-	835	-	-	1,100
Substandard	846	118	174	88	23	815	1	-	2,065
<b>Total</b>	<b>101,033</b>	<b>192,820</b>	<b>303,816</b>	<b>132,317</b>	<b>70,469</b>	<b>91,499</b>	<b>2,258</b>	<b>2,993</b>	<b>897,205</b>
Current period gross writeoff	(79)	-	(17)	-	-	-	-	-	(96)
<b>Revolving mortgage</b>									
Pass	720	-	-	-	1,620	84	235,435	24	237,883
Below average	-	-	-	-	-	-	15,821	200	16,021
Special mention	-	-	-	-	-	-	254	-	254
Substandard	-	-	-	-	-	-	682	-	682
<b>Total</b>	<b>720</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,620</b>	<b>84</b>	<b>252,192</b>	<b>224</b>	<b>254,840</b>
Current period gross writeoff	-	-	-	-	-	-	(114)	-	(114)
<b>Demand overdrafts</b>									
Pass	-	-	-	-	470	-	-	-	470
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>470</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>470</b>
Current period gross writeoff	-	-	-	(80)	(322)	-	-	-	(402)

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**Note 3. Loans and Allowance for Credit Losses (continued)**

Loans are designated as collateral-dependent when repayment of the loan is expected to be made through the operation or sale of the collateral. The following table presents the balance of collateral-dependent loans by class as of December 31, 2025 and 2024:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
Commercial:		
Agricultural	\$ -	\$ 121
Commercial and industrial	-	101
Commercial mortgage - owner-occupied/multi-family	1,120	1,579
Commercial mortgage - non-owner occupied	-	420
Non-commercial:		
Residential mortgage	1,355	436
Revolving mortgage	182	182
Total	<u>\$ 2,657</u>	<u>\$ 2,839</u>

BancShares maintains a reserve for unfunded commitments, which is included in other liabilities. Activity in the reserve for unfunded commitments is summarized as follows:

	<u>2025</u>	<u>2024</u>
Balance at beginning of period	\$ 1,501	\$ 1,644
Provision (recovery) for credit losses	172	(143)
Balance at end of period	<u>\$ 1,673</u>	<u>\$ 1,501</u>

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**Note 3. Loans and Allowance for Credit Losses (continued)**

The following table provides ACL activity by loan class for the year ended December 31, 2025. The table also provides the ACL balance and loan balance, indicating the portions that were derived from loans collectively evaluated and loans individually evaluated as of December 31, 2025.

	As of and for the Year Ended December 31, 2025											
	Construction and land development - non-residential	Agricultural	Commercial and industrial	Commercial mortgage - owner-occupied	Commercial mortgage - non-owner occupied	Commercial Other	Construction development - residential	Consumer	Residential mortgage	Revolving mortgage	Demand overdrafts	Total
ACL balance, December 31, 2024	\$ 2,104	\$ 1,397	\$ 3,054	\$ 8,202	\$ 6,085	\$ 380	\$ 993	\$ 292	\$ 8,848	\$ 2,894	\$ 3	\$ 34,252
Charge-offs	(11)	(9)	(31)	-	-	-	-	(192)	(25)	(48)	(392)	(708)
Recoveries	5	223	59	73	26	-	-	42	57	42	77	604
Provision for credit losses	(19)	(464)	(68)	704	1,156	(9)	102	151	(160)	245	315	1,953
ACL balance, December 31, 2025	\$ 2,079	\$ 1,147	\$ 3,014	\$ 8,979	\$ 7,267	\$ 371	\$ 1,095	\$ 293	\$ 8,720	\$ 3,133	\$ 3	\$ 36,101
ACL at December 31, 2025:												
Collectively evaluated for impairment	\$ 2,079	\$ 1,147	\$ 3,014	\$ 8,960	\$ 7,267	\$ 371	\$ 1,095	\$ 293	\$ 8,720	\$ 3,133	\$ 3	\$ 36,082
Individually evaluated for impairment	-	-	-	19	-	-	-	-	-	-	-	19
ACL	\$ 2,079	\$ 1,147	\$ 3,014	\$ 8,979	\$ 7,267	\$ 371	\$ 1,095	\$ 293	\$ 8,720	\$ 3,133	\$ 3	\$ 36,101
Loans at December 31, 2025:												
Collectively evaluated for impairment	\$ 155,709	\$ 183,204	\$ 238,210	\$ 950,482	\$ 556,069	\$ 45,457	\$ 72,066	\$ 26,100	\$ 919,005	\$ 286,505	\$ 467	\$ 3,413,274
Individually evaluated for impairment	-	-	-	1,273	306	-	-	-	1,355	182	-	3,116
Total loans	\$ 155,709	\$ 183,204	\$ 238,210	\$ 951,755	\$ 536,375	\$ 45,457	\$ 72,066	\$ 26,100	\$ 920,360	\$ 286,687	\$ 467	\$ 3,416,390

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**Note 3. Loans and Allowance for Credit Losses (continued)**

The following table provides ACL activity by loan class for the year ended December 31, 2024. The table also provides the ACL balance and loan balance, indicating the portions that were derived from loans collectively evaluated and loans individually evaluated as of December 31, 2024

	As of and for the Year Ended December 31, 2024											
	Construction development - non-residential	Agricultural	Commercial and industrial	Commercial mortgage - owner-occupied	Commercial mortgage - non-owner occupied	Commercial Other	Construction development - residential	Consumer	Residential mortgage	Revolving mortgage	Demand overdrafts	Total
ACL balance, December 31, 2023	\$ 3,522	\$ 1,467	\$ 3,312	\$ 7,234	\$ 5,220	\$ 319	\$ 1,088	\$ 308	\$ 7,547	\$ 3,018	\$ 2	\$ 33,037
Charge-offs	-	-	(95)	-	-	-	-	(125)	(96)	(114)	(402)	(832)
Recoveries	5	90	48	656	58	-	-	34	99	33	89	1,112
Provision for credit losses	(1,423)	(160)	(211)	312	807	61	(95)	75	1,298	(43)	314	935
ACL balance, December 31, 2024	\$ 2,104	\$ 1,397	\$ 3,054	\$ 8,202	\$ 6,085	\$ 380	\$ 993	\$ 292	\$ 8,848	\$ 2,894	\$ 3	\$ 34,252
ACL at December 31, 2024:												
Collectively evaluated for impairment	\$ 2,104	\$ 1,397	\$ 3,035	\$ 8,168	\$ 6,085	\$ 380	\$ 993	\$ 292	\$ 8,848	\$ 2,894	\$ 3	\$ 34,199
Individually evaluated for impairment	-	-	19	34	-	-	-	-	-	-	-	53
ACL	\$ 2,104	\$ 1,397	\$ 3,054	\$ 8,202	\$ 6,085	\$ 380	\$ 993	\$ 292	\$ 8,848	\$ 2,894	\$ 3	\$ 34,252
Loans at December 31, 2024:												
Collectively evaluated for impairment	\$ 143,908	\$ 201,785	\$ 225,866	\$ 862,181	\$ 518,162	\$ 44,274	\$ 73,186	\$ 24,072	\$ 896,496	\$ 254,658	\$ 470	\$ 3,245,058
Individually evaluated for impairment	-	121	381	1,619	856	-	-	-	709	182	-	3,868
Total loans	\$ 143,908	\$ 201,906	\$ 226,247	\$ 863,800	\$ 519,018	\$ 44,274	\$ 73,186	\$ 24,072	\$ 897,205	\$ 254,840	\$ 470	\$ 3,248,926

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**Note 3. Loans and Allowance for Credit Losses (continued)**

**Loan Modifications for Borrowers Experiencing Financial Difficulties**

As part of the Company's credit risk management practices, BancShares attempts to work with borrowers when necessary to extend or modify loan terms to accommodate the borrowers current ability to repay. BancShares' modifications granted to borrowers experiencing financial difficulties may include term extensions, interest rate reductions, other-than-insignificant payment delays, principal forgiveness, or a combination of these items. Modifications are made in accordance with internal policies and guidelines to conform to regulatory guidance.

Identification of a loan modification for borrowers experiencing financial difficulties does not affect the treatment of that loan in the ACL calculation. If the modified loan is individually evaluated in the ACL calculation for other factors, it will remain within the population of loans that are individually evaluated. Otherwise, the loan will be collectively evaluated based on its loan class. If a modified loan or portion of a modified loan is subsequently deemed uncollectible, the loan or the uncollectible portion of the loan charged off. If a charge-off occurs, the amortized cost basis of the loan is reduced by the uncollectible amount and the ACL is adjusted.

BancShares monitors the performance of loans that are modified to borrowers experiencing financial difficulty to assess the effectiveness of its modification efforts.

During 2024, two loans were designated as modifications for a borrower experiencing financial difficulties. The loans were modified to provide extended amortization terms. Both loans were current as of December 31, 2024 and had a combined amortized cost of \$44,000. The loans were in nonaccrual status as of December 31, 2024, and, due to the balance outstanding, below the threshold to be individually evaluated in the ACL calculation. Both loans were paid in full during 2025, and, as of December 31, 2025, there were no modified loans outstanding to borrowers experiencing financial difficulties.

There was no OREO as of December 31, 2025 and 2024. The recorded investment in residential mortgage loans in the process of foreclosure totaled \$271,000 and \$96,000 at December 31, 2025 and December 31, 2024, respectively.

**Note 4. Premises and Equipment**

The components of premises and equipment were as follows:

	December 31,	
	2025	2024
Land	\$ 22,434	\$ 20,180
Buildings and improvements	70,662	73,983
Furniture and equipment	26,124	25,543
Construction in progress	253	2,734
Premises and equipment, gross	119,473	122,440
Less: accumulated depreciation	(63,379)	(61,471)
Premises and equipment, net of accumulated depreciation	<u>\$ 56,094</u>	<u>\$ 60,969</u>

Depreciation and amortization totaling \$3.6 million and \$4.1 million in 2025 and 2024, respectively, are included in occupancy and furniture and equipment expenses. Construction in progress represents land acquired for expansion or facilities being built or renovated.

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**Note 4. Premises and Equipment (continued)**

**Premises and Equipment Lease Commitments**

As of December 31, 2025 and 2024 BancShares had operating lease right of use assets of \$3.1 million and \$2.8 million, respectively and operating lease liabilities of \$3.2 million and \$3.0 million, respectively. BancShares maintains operating leases on land and buildings for certain branch facilities. Most leases include renewal options, with renewal terms that management is reasonably certain to exercise extending up to ten years. The exercise of renewal options is based on the judgment of management as to whether or not the renewal option is reasonably certain to be exercised. Factors in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to Southern if the option is not exercised. Leases with a term of 12 months or less are not recorded in the consolidated balance sheets and instead are recognized in lease expense on a straight-line basis over the lease term.

Operating lease expense, included in occupancy expense in the consolidated statements of income and comprehensive income, totaled \$916,000 and \$851,000 during 2025 and 2024, respectively, all of which relates to fixed obligations. Short-term leases of equipment, included in furniture and equipment expense in the consolidated statements of income and comprehensive income, totaled \$42,000 and \$35,000 for 2025 and 2024, respectively, while leases of facilities owned or subleases of facilities leased, in which Southern is the lessor, included in other noninterest income in the consolidated statements of income and comprehensive income, totaled \$332,000 and \$228,000 during 2025 and 2024, respectively. Lease payments under operating leases that were applied to the operating lease liability totaled \$850,000 and \$741,000 during 2025 and 2024, respectively. Amortization of the operating right of use asset totaled \$825,000 and \$711,000, respectively, during 2025 and 2024.

The following table reconciles future undiscounted lease payments to the operating lease liability as of December 31, 2025.

2026	\$	893
2027		783
2028		732
2029		661
2030		476
Thereafter		-
Total undiscounted operating lease liabilities		<u>3,545</u>
Imputed interest		298
Total operating lease liabilities	\$	<u><u>3,247</u></u>
Weighted average lease term in years		4.35
Weighted average discount rate		3.74%

As of December 31, 2025 and 2024, Southern did not maintain any finance leases or leases with related parties, and the number and dollar amount of equipment leases and short-term leases was not material.

**Note 5. Derivatives and Hedging Activities**

BancShares is exposed to certain risk arising from both its business operations and economic conditions. BancShares manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. BancShares may also enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates.

**Fair Value Hedges of Interest Rate Risk**

During the first quarter of 2023, BancShares entered into a \$100 million notional value interest rate swap to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. The swap was designated as a fair value hedge, which results in the payment of fixed-rate amounts to a counterparty in

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**Note 5. Derivatives and Hedging Activities (continued)**

exchange for the receipt of variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. For derivatives that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the consolidated statements of income and comprehensive income even if the gain (loss) on the hedged item would otherwise be recorded in other comprehensive income.

The following table provides information regarding the fair value hedge and the related cumulative basis adjustment as of December 31, 2025 and 2024:

Location in the consolidated balance sheets	Carrying amount of the hedged assets	Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged asset
December 31, 2025		
Investment securities available for sale	\$ 223,401	\$ (14)
December 31, 2024		
Investment securities available for sale	215,372	(521)

The carrying amounts include the amortized cost basis of a closed portfolio of investment securities available for sale designated for the hedging relationships. Management anticipates the remaining amortized cost of the closed portfolio will exceed the notional amount of the fair value hedge for the designated hedged period.

**Non-designated Hedges**

Derivatives not designated as hedges are not speculative and are used to manage exposure to interest rate movements and other identified risks but either do not meet the hedge accounting requirements or have not been designated as a hedge. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

During the first quarter of 2025, BancShares entered into multiple interest rate caps with an aggregate notional amount of \$200 million to manage interest rate risk. None of the interest rate caps executed during 2025 were designated as hedges. As a result, the change in fair value is included in the consolidated statements of income and comprehensive income.

The following table presents the fair value of BancShares' derivative assets as well as their classification on the consolidated balance sheets as of December 31, 2025 and 2024. There were no derivative liabilities during either period.

	Notional amount	Consolidated balance sheet location	Fair value
Derivatives designated as hedging instruments:			
Interest rate products			
December 31, 2025	\$ 100,000	Other assets	\$ 4
December 31, 2024	100,000	Other assets	512
Derivatives not designated as hedging instruments:			
Interest rate products			
December 31, 2025	200,000	Other assets	58
December 31, 2024	-	Other assets	-

The following table presents the effect of BancShares' derivative financial instruments on the consolidated statements of income and comprehensive income for the years ended December 31, 2025 and 2024.

	Year Ended December 31,	
	2025	2024
Interest income on fair value hedging relationships		
Basis adjustment related to hedged item	\$ (14)	\$ (521)
Fair value hedge	(508)	(84)
Interest income resulting from fair value hedge	643	1,570
Total income resulting from fair value hedge, net	\$ 121	\$ 965

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**Note 5. Derivatives and Hedging Activities (continued)**

The following table presents a gross presentation, the effects of offsetting, and a net presentation of derivatives as of December 31, 2025 and 2024.

	Gross amounts of recognized assets	Gross amounts offset in consolidated balance sheets	Net amounts presented in the consolidated balance sheets	Gross amounts not offset in the consolidated balance sheets		
				Financial instruments	Cash collateral received	Net amount
December 31, 2025	\$ 62	\$ -	\$ 62	\$ -	\$ 62	\$ -
December 31, 2024	512	-	512	-	512	-

BancShares has agreements with derivative counterparties whereby, if BancShares defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, BancShares could also be declared in default on its derivative obligations. BancShares also has agreements with its derivative counterparties that contain provisions that could require additional collateral if BancShares or Southern fail to maintain its status as a well or adequately capitalized institution. As of December 31, 2025, there were no derivatives in a net liability position.

**Note 6. Income Taxes**

Allocation of federal and state income taxes between current and deferred portions for the years ended December 31 is as follows:

	2025	2024
Current:		
Federal	\$ 16,141	\$ 10,016
State	1,638	1,526
Total	<u>17,779</u>	<u>11,542</u>
Deferred:		
Federal	731	30,703
State	38	(22)
Total	<u>769</u>	<u>30,681</u>
Total tax expense	<u>\$ 18,548</u>	<u>\$ 42,223</u>

BancShares had no foreign operations in any period presented, and domestic operations did not generate any foreign tax expense during any period.

A reconciliation of income tax expense computed at the statutory federal income tax rate income tax expense included in net income is as follows:

	2025		2024	
	Amount	Percent	Amount	Percent
Tax at statutory federal rate	\$ 18,233	21.00%	\$ 42,010	21.00%
State income tax, net of federal benefit	1,355	1.56%	1,292	0.65%
Tax credits	(9)	-0.01%	(50)	-0.02%
Non-taxable non-deductible items:				
Tax exempt income	(920)	-1.06%	(939)	-0.47%
Dividends received deduction	(217)	-0.25%	(170)	-0.08%
Other non-taxable non-deductible items, net	65	0.07%	53	0.03%
All other, net	41	0.05%	27	0.01%
Income tax expense	<u>\$ 18,548</u>	<u>21.36%</u>	<u>\$ 42,223</u>	<u>21.11%</u>

State income tax expense relates to BancShares' operations in North Carolina.

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**Note 6. Income Taxes (continued)**

The components of the net deferred tax liability (included in other liabilities) at December 31, 2025 and December 31, 2024 are as follows:

	December 31,	
	2025	2024
Deferred tax assets:		
Allowance for credit losses	\$ 8,072	\$ 7,641
Pension liability	(897)	(443)
Deferred compensation	681	701
Unrealized losses on investment securities available for sale	33,611	50,484
Operating lease liabilities	725	685
Other	-	(125)
Total deferred tax assets	<u>42,192</u>	<u>58,943</u>
Deferred tax liabilities:		
Depreciation	(614)	(532)
Intangibles	(1,571)	(1,571)
Pension funding commitment	(3,425)	(3,534)
Unrealized gains on equity securities	(93,072)	(91,655)
FDIC acquisition	(344)	(779)
Operating lease right of use assets	(694)	(640)
Other	(832)	(656)
Total deferred tax liabilities	<u>(100,552)</u>	<u>(99,367)</u>
Net deferred tax liability	<u>\$ (58,360)</u>	<u>\$ (40,424)</u>

As of January 1, 2024, BancShares had reduced the deferred tax asset related to investment securities available for sale by \$2.0 million due to prospective reductions in the North Carolina corporate income tax rate that had been enacted by the North Carolina General Assembly during 2022. During 2024, the deferred tax asset was remeasured, resulting in a \$493,000 reduction in the net deferred tax asset related to investment securities available for sale, offset by a charge to state income tax expense. During 2025, the deferred tax asset was remeasured, resulting in a \$147,000 reduction in the net deferred tax asset related to investment securities available for sale, offset by a charge to state income tax expense. As of December 31, 2025 and 2024, the adjustment resulting from remeasurement of all other deferred tax assets and liabilities resulting from the prospective changes in the state income tax rate was not material.

BancShares has invested in qualified affordable housing projects in the amount of \$9.4 million and \$8.4 million at December 31, 2025 and 2024, respectively. The investment balance net of amortized tax benefits is \$4.6 million and \$4.5 million at December 31, 2025 and 2024, respectively and is shown in the consolidated balance sheets in other assets. BancShares also has commitments, which are included in other liabilities in the consolidated balance sheets, to provide additional capital calls in the amount of \$1.9 million and \$1.3 million at December 31, 2025 and 2024, respectively. It is anticipated that these additional commitment amounts will be paid within the next three years.

BancShares accounts for its qualified affordable housing projects under the proportional amortization method, amortizing the initial cost of the investment in proportion to the tax credits and other tax benefits received. Subject to any applicable limitations, investment tax credits are recognized as a reduction in income tax expense in the period in which the credit is generated.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in BancShares' consolidated financial statements. BancShares has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2025. Interest and penalties related to income tax assessments, if any, are reflected in income tax expense in the consolidated statements of income and comprehensive income. Fiscal years ending on or after December 31, 2022 remain subject to examination by federal and state tax authorities.

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**Note 7. Deposits**

Deposits at December 31 are summarized as follows:

	2025	2024
Demand	\$ 1,422,658	\$ 1,344,869
Money market accounts	1,364,387	1,317,467
Checking with interest	827,509	785,347
Time	742,007	724,987
Savings	281,727	271,257
Total deposits	<u>\$ 4,638,288</u>	<u>\$ 4,443,927</u>

Total time deposits with a denomination of \$250,000 or more were \$326.7 million and \$318.0 million at December 31, 2025 and 2024, respectively.

At December 31, 2025, the scheduled maturities of time deposits was:

2026	\$ 721,184
2027	13,755
2028	4,390
2029	1,903
2030	715
Thereafter	60
Total time deposits	<u>\$ 742,007</u>

Time deposits as of December 31, 2024 included \$10.0 million of brokered deposits, all of which matured during the subsequent twelve months. There were no brokered deposits outstanding at December 31, 2025.

**Note 8. Short-Term Borrowings and Long-Term Borrowings**

Short-term borrowings at December 31 were:

	2025	2024
FHLB advances	\$ 30,000	\$ 130,000
Repurchase agreements	24,250	32,497
Senior notes payable	10,000	-
Total short-term borrowings	<u>\$ 64,250</u>	<u>\$ 162,497</u>

For the years ended December 31, 2025 and 2024, short-term borrowings outstanding averaged \$73.5 million and \$191.0 million, respectively, with weighted average rates of 3.42% and 4.55% as of December 31, 2025 and 2024, respectively.

The \$10.0 million of 2.625% senior notes payable mature on June 30, 2026 and were issued to an affiliated institution.

Southern utilizes securities sold under agreements to repurchase to facilitate the needs of our customers. Repurchase agreements are transactions whereby Southern offers to sell to a counterparty an undivided interest in an eligible security at an agreed upon purchase price, and which obligates Southern to repurchase the security on an agreed upon date at an agreed upon repurchase price plus interest at an agreed upon rate. Securities sold under agreements to repurchase are recorded at the amount of cash received in connection with the transaction and are reflected as short-term borrowings in the consolidated balance sheets.

Southern monitors collateral levels on a continuous basis and maintains records of each transaction specifically describing the applicable security and the counterparty's fractional interest in that security, and segregates the security from its general assets in accordance with regulations governing custodial holdings of securities. The primary risk with Southern's repurchase agreements is market risk associated with the investments securing the transactions, as Southern may be required to provide additional collateral based on fair value changes of the underlying investments. Securities pledged as collateral under repurchase agreements are held by Southern's safekeeping agents.

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**Note 8. Short-Term Borrowings and Long-Term Borrowings (continued)**

At December 31, 2025 and 2024, investment securities with a carrying value of \$26.4 million and \$39.0 million, respectively were pledged for repurchase agreements. The securities collateralizing the repurchase agreements have been delivered to a third party custodian for safekeeping. As of December 31, 2025, securities pledged to secure repurchase obligations included \$26.0 million government-sponsored mortgage-backed securities and \$350,000 in obligations of state and political subdivisions. As of December 31, 2024, securities pledged to secure repurchase obligations included \$12.0 million U.S Treasury and government-sponsored entities debt obligations and \$27.0 million of government-sponsored mortgage-backed securities

Southern and BancShares each maintain various credit lines that provide access to liquidity as needed. While certain of these lines are unsecured, other lines are secured by pledged assets, including loans, investment securities available for sale, and equity securities.

Long-term borrowings at December 31 were:

	2025	2024
FHLB advances	\$ -	\$ 30,000
Subordinated notes payable	70,000	70,000
Senior notes payable	-	10,000
Unamortized issuance costs	(397)	(673)
Total long-term borrowings	<u>\$ 69,603</u>	<u>\$ 109,327</u>

Total long-term borrowings averaged \$85.1 million and \$115.0 million for 2025 and 2024, respectively and the average cost was 3.51% and 3.71% for 2025 and 2024, respectively.

On June 23 2021, BancShares completed the private placement of \$80 million aggregate principal amount of its 3.125% Fixed-to-Floating Rate Subordinated Notes (“2021 Subordinated Notes”) due June 30, 2031 and redeemable at the option of BancShares starting with the interest payment due June 30, 2026. During 2024, BancShares repurchased and canceled \$10 million of the 2021 Subordinated Notes. Redemption is subject to obtaining the prior approval of the Federal Reserve to the extent such approval is then required under the rules of the Federal Reserve, or earlier upon the occurrence of certain events. After the initial 5 year fixed rate period, the note will revert to the three month Secured Overnight Financing Rate (“SOFR”) plus 241 basis points.

**Note 9. Retirement Plans**

Southern has a noncontributory, defined benefit pension plan which covers a substantial number of full-time employees. Southern discontinued offering benefits under the defined benefit plan to employees hired after June 30, 2012. Employees hired who met eligibility requirements on or before June 30, 2012 were allowed the option of continued participation in the defined benefit plan and the existing 401(k) plan or enrollment in an enhanced 401(k) plan, discussed further below. Employees who elected to enroll in the enhanced plan discontinued the accrual of additional years of service under the defined benefit plan. Under the plan, retirement benefits are based on years of service and average earnings. The plan’s assets consist primarily of investments in fixed income securities and listed common stocks. It is Southern’s policy to determine the service cost and projected benefit obligation using the Projected Unit Credit Cost method.

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**Note 9. Retirement Plans (continued)**

The following sets forth pertinent information regarding the projected benefit obligation of the pension plan for the periods indicated:

	2025	2024
Projected benefit obligation, beginning of year	\$ 71,270	\$ 72,895
Service cost	1,041	1,161
Interest cost	3,860	3,703
Actuarial (gain) loss	1,937	(2,564)
Benefits paid	(4,107)	(3,925)
Projected benefit obligation, end of year	<u>\$ 74,001</u>	<u>\$ 71,270</u>

The accumulated benefit obligation for the pension plan at the end of 2025 and 2024 was \$66.6 million and \$64.1 million, respectively. Southern uses a measurement date of December 31 for its pension plan.

The weighted average assumptions used to determine benefit obligations, at the end of the year were as follows:

	2025	2024
Discount rate	5.45%	5.54%
Rate of compensation increase	4.00%	4.00%

The change in the fair value of plan assets is as follows:

	2025	2024
Fair value of plan assets, beginning of year	\$ 90,690	\$ 93,069
Actual return on plan assets	8,152	1,546
Administrative expenses paid	(554)	-
Benefits paid	(4,107)	(3,925)
Fair value of plan assets, end of year	<u>\$ 94,181</u>	<u>\$ 90,690</u>

Benefits paid include only amounts paid directly from plan assets.

The following tables provide information regarding the funded status of the plan and information regarding other amounts recognized in the consolidated balance sheets:

	2025	2024
Funded status, end of year		
Fair value of plan assets	\$ 94,181	\$ 90,690
Projected benefit obligation	(74,001)	(71,270)
Funded status	<u>20,180</u>	<u>19,420</u>
Net amount recognized	<u>\$ 20,180</u>	<u>\$ 19,420</u>

Amounts recognized in the consolidated balance sheets:

	2025	2024
Other assets	\$ 20,180	\$ 19,420

Amounts recognized in accumulated other comprehensive income consist of:

	2025	2024
Net gain	\$ (4,519)	\$ (2,689)
Accumulated other comprehensive income	<u>\$ (4,519)</u>	<u>\$ (2,689)</u>

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**Note 9. Retirement Plans (continued)**

The following table discloses the components of periodic benefit cost related to the pension plan for the years ended December 31, 2025 and 2024:

	2025	2024
Service cost	\$ 1,041	\$ 1,161
Interest cost	3,860	3,703
Expected return on plan assets	(4,386)	(4,875)
Net periodic benefit (credit) cost	<u>\$ 515</u>	<u>\$ (11)</u>

Investment decisions regarding the plan's assets seek to achieve a favorable annual return through a diversified portfolio that will provide needed capital appreciation and cash flow to allow both current and future benefit obligations to be paid. The target asset mix may change if the objectives for the plan's assets or risk tolerance change or if a major shift occurs in the expected long-term risk and reward characteristics of one or more asset classes.

The asset allocation for Southern's pension plan at the end of 2025 and 2024, and the target allocation for 2026, by asset category, is as follows:

Asset category	Target Allocation for 2026	Percentage of Plan Assets at December 31,	
		2025	2024
Cash and cash equivalents	3%	3%	4%
Equity securities	20%	19%	22%
Debt securities	77%	78%	74%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Southern's investment strategy calls for earning an adequate return on assets while not exposing the assets to unnecessary risk. The plan's assets are primarily invested in marketable, fixed rate U. S. Government and corporate securities and marketable equity securities. The plan's target allocation was modified in recent years to increase the exposure to debt securities, while decreasing the exposure to equity securities.

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**Note 9. Retirement Plans (continued)**

The fair values of pension plan assets at December 31, 2025 and 2024, by asset category are as follows:

Asset Category	Fair value as of December 31	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Target Allocation	Actual % of Plan Assets
<b>2025</b>						
Cash and cash equivalents	\$ 2,816	\$ 2,816	\$ -	\$ -	2%	3%
Equity securities:					20%	19%
Individual equities	3,286	3,286	-	-		
Mutual funds	4,489	1,737	2,752	-		
Exchange traded funds	10,598	10,598	-	-		
Debt securities:						
Mutual funds	72,992	-	72,992	-	78%	78%
Total pension assets	<u>\$ 94,181</u>	<u>\$ 18,437</u>	<u>\$ 75,744</u>	<u>\$ -</u>	<u>100%</u>	<u>100%</u>
<b>2024</b>						
Cash and cash equivalents	\$ 3,481	\$ 3,481	\$ -	\$ -	2%	4%
Equity securities:					20%	22%
Individual equities	3,674	3,674	-	-		
Mutual funds	2,903	2,903	-	-		
Exchange traded funds	13,186	13,186	-	-		
Debt securities:						
Mutual funds	67,446	67,446	-	-	78%	74%
Total pension assets	<u>\$ 90,690</u>	<u>\$ 90,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>100%</u>	<u>100%</u>

BancShares does not anticipate making any contributions to the plan during 2026. Estimated payments to pension plan participants in the indicated periods are as follows:

2026	\$ 5,159
2027	5,660
2028	4,993
2029	6,029
2030	5,733
2031 - 2035	30,047

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended December 31, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Discount rate	5.54%	5.20%
Rate of compensation increase	4.00%	4.00%
Expected return on plan assets	5.30%	5.30%

The discount rates above reflect the discount in effect at January 1 of the plan year. The expected rate of return on plan assets for each period was determined based on analysis of current asset yields and anticipated portfolio yields based on projected asset composition.

Employees hired before July 1, 2012 are also eligible to participate in a 401(k) plan through deferral of portions of their salary. Based on the employee's contribution, BancShares will match up to 100% of the first 3% of the participant's contributions and 50% of the next 3%. In addition, BancShares also offers an enhanced 401(k) plan for certain employees. BancShares will match 100% of the first 6% of the participant's contributions. In addition, BancShares may make discretionary contributions. BancShares made participating contributions of \$3.4 million and \$3.0 million during 2025 and 2024, respectively.

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**Note 10. Regulatory Requirements and Restrictions**

BancShares is subject to regulations with respect to certain risk-based capital ratios. These risk-based capital ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted based on the rules to reflect categorical credit risk. In addition to the risk-based capital ratios, the regulatory agencies have also established a leverage ratio for assessing capital adequacy. The leverage ratio is equal to Tier 1 capital divided by total consolidated on-balance sheet assets (minus amounts deducted from Tier 1 capital). The leverage ratio does not involve assigning risk weights to assets.

Southern is also subject to the regulatory framework for prompt corrective action, which identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and is based on specified thresholds for each of the three risk-based regulatory capital ratios (CET1, Tier 1 capital and total capital) and for the leverage ratio.

The following table presents actual and required capital ratios as of December 31, 2025 and 2024 for BancShares and Southern under the Basel III capital rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended, to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum for capital adequacy purposes		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<b>December 31, 2025:</b>						
Common equity Tier 1 to risk-weighted assets:						
BancShares	\$ 652,559	13.951%	\$ 210,492	4.500%	\$ 304,044	6.500%
Southern	515,938	12.930%	179,555	4.500%	259,358	6.500%
Tier 1 capital to risk-weighted assets						
BancShares	652,559	13.951%	280,656	6.000%	374,209	8.000%
Southern	515,938	12.930%	239,407	6.000%	319,209	8.000%
Total capital to risk-weighted assets						
BancShares	759,168	16.230%	374,209	8.000%	467,762	10.000%
Southern	553,444	13.870%	319,211	8.000%	399,014	10.000%
Tier 1 capital to average assets (leverage ratio):						
BancShares	652,559	11.752%	222,110	4.000%	277,637	5.000%
Southern	515,938	9.568%	215,702	4.000%	269,628	5.000%
<b>December 31, 2024:</b>						
Common equity Tier 1 to risk-weighted assets:						
BancShares	\$ 579,076	13.318%	\$ 195,665	4.500%	\$ 282,627	6.500%
Southern	491,071	13.160%	167,922	4.500%	242,554	6.500%
Tier 1 capital to risk-weighted assets						
BancShares	579,076	13.318%	260,886	6.000%	347,848	8.000%
Southern	491,071	13.160%	223,896	6.000%	298,528	8.000%
Total capital to risk-weighted assets						
BancShares	675,417	15.534%	347,848	8.000%	434,810	10.000%
Southern	526,485	14.109%	298,529	8.000%	373,161	10.000%
Tier 1 capital to average assets (leverage ratio):						
BancShares	579,076	10.671%	217,069	4.000%	271,337	5.000%
Southern	491,071	9.367%	209,712	4.000%	262,139	5.000%

BancShares and Southern had capital conservation buffers of 7.95% and 5.87%, respectively, at December 31, 2025. These buffers exceed the 2.5% requirement, and therefore, result in no limit on distributions.

The primary source of funds for the dividends paid by BancShares to its shareholders is dividends received from its banking subsidiary. Southern is restricted as to dividend payout by state laws applicable to banks and may pay dividends only out of retained earnings. Should at any time its surplus be less than 50% of its paid-in capital stock, Southern may not declare a dividend until it has transferred from retained earnings to surplus 25% of its undivided profits or any lesser

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**Note 10. Regulatory Requirements and Restrictions (continued)**

percentage that may be required to restore its surplus to an amount equal to 50% of its paid-in capital stock. Additionally, dividends paid by Southern may be limited by the need to retain sufficient earnings to satisfy minimum capital requirements imposed by the FDIC. Dividends on BancShares' common shares may be paid only after dividends on preferred series B and C shares have been paid. Common share dividends are based upon BancShares' profitability and are paid at the discretion of the Board of Directors.

Management does not expect any of the foregoing restrictions to materially limit its ability to pay dividends comparable to those paid in the past.

**Note 11. Commitments, Contingencies and Concentration of Credit Risk**

In the normal course of business there are various commitments and contingent liabilities outstanding, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. Southern is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and undisbursed advances on customer lines of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

Southern is exposed to credit loss for the contractual notional amount of commitments to extend credit and standby letters of credit in the event of nonperformance by the other party to the financial instrument. Southern uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit and undisbursed advances on customer 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. Since many commitments expire without being drawn, the total commitment amounts do not necessarily represent future cash requirements. Southern evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Southern, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include trade accounts receivable, property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are commitments issued by Southern to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The maximum potential amount of undiscounted future payments related to standby letters of credit was \$10.6 million and \$9.7 million at December 31, 2025 and 2024, respectively. At December 31, 2025, BancShares has recorded no liability for the carrying amount of the obligation to perform as a guarantor, and no liability is considered necessary. Substantially all standby letters of credit are secured by real estate and/or guaranteed by third parties in the event BancShares had to advance funds to fulfill the guarantee.

Outstanding commitments to lend at December 31, 2025 and December 31, 2024 were \$871.3 million and \$778.5 million. Outstanding commitments to lend at December 31, 2025 generally expire within one year, whereas commitments associated with undisbursed advances on customer lines of credit at December 31, 2025 generally expire within one to five years.

Non-recourse commitments to sell loans amounted to \$13.5 million and \$8.1 million at December 31, 2025 and 2024, respectively. BancShares utilized investor commitments to protect its mortgage loans held for sale from interest rate risk from the time of origination to the time of sale. These commitments are accounted for at fair market value. Unfunded residential mortgage loan commitments for loans to be sold are also accounted for at fair market value. These fair market value adjustments were insignificant as of and for the years ended December 31, 2025 and 2024.

Southern is also committed to leases for banking facilities. See Note 4 – Premises and Equipment for lease commitments at December 31, 2025.

Southern grants agribusiness, commercial and consumer loans to customers primarily in eastern North Carolina and southeastern Virginia. BancShares does not have any special purpose entities or other similar forms of off-balance sheet financing arrangements.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 11. Commitments, Contingencies and Concentration of Credit Risk (continued)**

BancShares is also involved in various legal actions arising in the normal course of business. Management is of the opinion that the outcome of such actions will not have a material adverse effect on the consolidated financial position of BancShares.

**Note 12. Parent Company Financial Statements**

Presented below are the condensed balance sheets (parent company only) of Southern BancShares (N.C.), Inc. as of December 31, 2025 and 2024 and condensed statements of income and cash flows for the years then ended.

**CONDENSED BALANCE SHEETS**

	December 31,	
	2025	2024
<b>ASSETS</b>		
Cash	\$ 56,724	\$ 16,596
Investment in marketable equity securities at fair value	399,944	395,318
Investment securities available for sale, at fair value	-	7,853
Investment in subsidiary	424,415	338,431
Other assets	2,464	2,531
Total assets	<u>\$ 883,547</u>	<u>\$ 760,729</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accrued liabilities	\$ 78,932	\$ 77,751
Notes payable	79,603	79,327
Total liabilities	<u>158,535</u>	<u>157,078</u>
Shareholders' equity	<u>725,012</u>	<u>603,651</u>
Total liabilities and shareholders' equity	<u>\$ 883,547</u>	<u>\$ 760,729</u>

**CONDENSED STATEMENTS OF INCOME**

	Year Ended December 31,	
	2025	2024
Interest and dividend income	\$ 2,718	\$ 2,315
Dividends from bank subsidiary	35,000	10,000
Unrealized gains on marketable equity securities	5,635	124,764
Gain on sale of marketable equity securities	5,445	-
Total income	<u>48,798</u>	<u>137,079</u>
Interest expense	2,736	2,554
Other expense	483	535
Total expense	<u>3,219</u>	<u>3,089</u>
Income before income tax	45,579	133,990
Income tax expense	2,170	29,561
Net income before equity in undistributed earnings of subsidiary	<u>43,409</u>	<u>104,429</u>
Equity in undistributed income of subsidiary	24,866	53,395
Net income	<u>\$ 68,275</u>	<u>\$ 157,824</u>

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 12. Parent Company Financial Statements (continued)**

**CONDENSED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2025	2024
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 68,275	\$ 157,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(24,866)	(53,395)
Deferred income tax expense	1,183	26,200
Unrealized gain on marketable equity securities	(5,635)	(124,764)
Unrealized loss on investment securities available for sale	47	387
Gain on sale of marketable equity securities	(5,445)	-
Amortization of debt issuance costs	276	104
Change in other assets	9	(9)
Change in accrued liabilities	(2)	3,549
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>33,842</b>	<b>9,896</b>
<b>INVESTING ACTIVITIES:</b>		
Purchases of marketable equity securities	(3,593)	(2,138)
Proceeds from sale of marketable equity securities	10,047	-
Proceeds from maturities and calls of investment securities available for sale	7,900	-
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>14,354</b>	<b>(2,138)</b>
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(2,140)	(2,163)
Issuance of common stock	250	146
Purchase and retirement or redemption of stock	(6,178)	(5,243)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(8,068)</b>	<b>(7,260)</b>
NET INCREASE IN CASH AND CASH EQUIVALENTS	40,128	498
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	16,596	16,098
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<b>\$ 56,724</b>	<b>\$ 16,596</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH PAID DURING THE YEAR FOR:</b>		
Interest	<b>\$ 2,486</b>	<b>\$ 2,422</b>

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 13. Fair Value of Financial Instruments**

BancShares utilizes fair value measurements to record certain financial instruments at fair value and to determine fair value disclosures. Fair value estimates are made by management at specific points in time based on relevant information about the financial instrument and the market. These estimates do not consider any premium or discount that could result from offering BancShares' entire holdings of a particular financial instrument nor are potential taxes and other expenses that would be incurred in an actual sale considered. Because no market exists for a significant portion of BancShares' financial instruments, fair value estimates are based on judgments regarding future expected losses, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions and/or the methodology used could significantly affect the estimates disclosed. Fair values disclosed could vary significantly from amounts realized in actual transactions.

Fair value estimates are based on existing on- and off-balance sheet financial instruments. Fair values are not disclosed for assets and liabilities that are not financial instruments. Taxes resulting from the realization of the unrealized gains and losses are not considered in the fair value estimates.

BancShares reports certain financial instruments at fair value on a recurring basis, including marketable equity securities, investment securities available-for-sale and certain derivative instruments. BancShares may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value that was below cost as of the balance sheet date. Assets reported at fair value on a nonrecurring basis include impaired loans, loans held for sale, goodwill, and OREO.

BancShares groups financial assets and financial liabilities measured 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 fair value. These levels are:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party services for similar or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or brokered traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

**Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

*Cash and due from banks, Interest-bearing deposits with banks, Certificates of deposit with banks, Accrued interest receivable, and Accrued interest payable* - The carrying amounts for cash and due from banks, interest-bearing deposits with banks, certificates of deposits with banks, accrued interest receivable, and accrued interest payable are equal to their fair values due to the short-term nature of these financial instruments. These items are considered Level 1.

*Marketable equity securities* - Marketable equity securities are measured at fair value using observable closing prices. The valuation also considers the amount of market activity by examining the trade volume of each security. Marketable equity securities are classified as level 1 since they are traded in an active market.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 13. Fair Value of Financial Instruments (continued)**

*Investment securities available for sale* - Investment securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, or U.S. Treasury and agency mortgage-backed securities issued by government sponsored entities 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, obligations of states and political subdivisions and corporate debt securities. Securities classified as level 3 include asset-backed securities in less liquid markets given that there is an absence of observable inputs for these and similar securities in the debt markets. For these securities, a present value approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs provides representative fair values, and therefore, has been used rather than a market valuation approach. This income valuation approach requires numerous steps in determining fair value. These steps include estimating credit quality of the collateral, generating asset defaults, forecasting cash flows for underlying collateral, and determining losses given default assumptions.

*Loans held for sale* - Fair value for loans held for sale is generally based on market prices for loans with similar characteristics or external valuations. Loans held for sale are classified as level 2.

*Loans* - Fair value of loans is an estimate of exit price. Exit price is estimated based on a discounted future cash flow analysis using estimated credit losses expected to be incurred over the remaining life of the loans and current interest rates offered on loans with similar terms and credit quality. The inputs used in the fair value measurements for loans and leases are considered Level 3 inputs.

*Stock in Federal Home Loan Bank of Atlanta* - The carrying amount for Federal Home Loan Bank of Atlanta stock is equal to the fair value due to the redemption provisions of the stock and no ready available market for such stock. Federal Home Loan Bank of Atlanta stock is considered level 1.

*Derivative assets* - Fair values for derivative assets were determined using level 2 inputs based on observed pricing for similar assets and model-based valuation techniques for which all significant assumptions are observable in the market.

*Deposits* - The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at year end. The fair value of certificates of deposit is estimated by discounting the future cash flows using the current rates paid for similar deposits. Deposits are considered level 2.

*Short-term borrowings and Long-term borrowings* - The fair values of short-term borrowings and long-term borrowings reflect discounted future cash flows using current interest rates for similar maturities. Short-term borrowings and long-term borrowings are considered level 2.

*Commitments* - Southern's commitments to extend credit have no carrying value and are generally at variable rates and/or have relatively short terms to expiration. Accordingly, these financial instruments are deemed to have no material fair value.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**Note 13. Fair Value of Financial Instruments (continued)**

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

	Fair Value	Quoted Prices in Active Markets for Instrument (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2025</b>				
Marketable equity securities	\$ 471,842	\$ 471,842	\$ -	\$ -
Investment securities available for sale:				
U.S. Treasuries and government sponsored entities debt	314,087	314,087	-	-
Corporate debt securities	465	-	465	-
Obligations of states and political subdivisions	192,314	-	192,314	-
Government-sponsored mortgage-backed securities	746,708	-	746,708	-
Derivative assets	62	-	62	-
Total	<u>\$ 1,725,478</u>	<u>\$ 785,929</u>	<u>\$ 939,549</u>	<u>\$ -</u>
<b>December 31, 2024</b>				
Marketable equity securities	\$ 466,104	\$ 466,104	\$ -	\$ -
Investment securities available for sale:				
U.S. Treasuries and government sponsored entities debt	310,204	310,204	-	-
Corporate debt securities	11,156	-	11,156	-
Obligations of states and political subdivisions	183,022	-	183,022	-
Government-sponsored mortgage-backed securities	708,945	-	708,945	-
Derivative assets	512	-	512	-
Total	<u>\$ 1,679,943</u>	<u>\$ 776,308</u>	<u>\$ 903,635</u>	<u>\$ -</u>

There were no investments with fair values determined by unobservable inputs during 2025 or 2024.

**Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis**

Loans in excess of \$100,000 are individually evaluated when it is probable that all amounts due under the contractual terms of the loan will not be collected when due, and a specific allowance is established, if required. A specific allowance, which is based on level 3 unobservable inputs, is required if the fair value of the expected repayments or the collateral is less than the recorded investment in the loan. Since individually evaluated loans are reviewed quarterly, they are deemed to be at fair value whenever a specific allowance exists.

OREO is measured and reported at fair value using level 3 inputs for valuations based on non-observable criteria. There was no OREO at December 31, 2025 and 2024.

At December 31, 2025 and 2024, BancShares had certain equity securities without a readily determinable market value, which were measured using the measurement alternative. Under the measurement alternative, these investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. As a result, these investments are valued using level 2 inputs. No such adjustments were recorded during the years ending December 31, 2025 and 2024.

At December 31, 2025 and 2024, BancShares had individually evaluated loans that are measured at fair value on a nonrecurring basis. BancShares applies discounts ranging between 6% and 15% for expected liquidation and sales costs to fair value estimates for impaired loans. Although there was no OREO reported at December 31, 2025 and 2024, similar discounts would be considered to estimate fair value.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 13. Fair Value of Financial Instruments (continued)**

The tables below present the balances of assets and liabilities measured at fair value on a nonrecurring basis.

	Fair value	Quoted prices for Active Markets for Instruments (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2025</b>				
Individually evaluated loans	\$ 3,097	\$ -	\$ -	\$ 3,097
<b>2024</b>				
Individually evaluated loans	431	-	-	431

Certain assets are carried at fair value on a nonrecurring basis. Loans held for sale are carried at the lower of aggregate cost or fair value and are therefore carried at fair value only when fair value is less than the asset cost. The values of loans held for sale are based on prices observed for similar pools of loans. There have been no fair value adjustments recorded for loans held for sale at December 31, 2025 and 2024. No financial liabilities were carried at fair value on a nonrecurring basis as of December 31, 2025 or December 31, 2024.

The estimated fair values of BancShares' financial instruments at December 31 are as follows:

	2025		2024	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash and due from banks	\$ 26,067	\$ 26,067	\$ 25,286	\$ 25,286
Interest-bearing deposits with banks	249,018	249,018	258,704	258,704
Certificates of deposits with banks	1,350	1,350	1,350	1,350
Marketable equity securities	471,842	471,842	466,104	466,104
Investment securities available-for-sale	1,253,574	1,253,574	1,213,327	1,213,327
Loans held for sale	11,461	11,461	12,431	12,431
Loans, net of allowance for credit losses	3,380,289	3,256,906	3,214,674	3,031,585
Stock in Federal Home Loan Bank of Atlanta	4,935	4,935	10,931	10,931
Accrued interest receivable	19,025	19,025	17,803	17,803
Derivative financial instruments	62	62	512	512
<b>Financial liabilities:</b>				
Deposits	\$ 4,638,288	\$ 4,628,542	\$ 4,443,927	\$ 4,435,850
Short-term borrowings	64,250	64,098	162,497	162,485
Long-term borrowings	69,603	66,303	109,327	97,664
Accrued interest payable	1,592	1,592	2,519	2,519

**Note 14. Related Parties**

One of BancShares' directors is an executive officer, a significant shareholder, and a director of First Citizens BancShares, Inc. At December 31, 2025 the director beneficially owned 6,709 shares, or 8.91% of BancShares' outstanding common stock and 2,000 shares, or 0.82%, of BancShares' outstanding Series B preferred stock. A sibling of that director, who is also a director of BancShares, beneficially owns 6,906 shares, or 9.18%, of BancShares' outstanding common stock.

BancShares has entered into various service contracts with First Citizens BancShares, Inc. and its subsidiary, First-Citizens Bank & Trust Company (collectively "First Citizens"). The following table lists the income received and expenses recorded for transactions with First Citizens during the years ended December 31:

	2025	2024
Income from credit cards	\$ 234	\$ 211
Trustee for employee benefit plans	51	406

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**Note 14. Related Parties (continued)**

The Bank is party to a contract with First Citizens, under which the Bank refers credit card requests to First Citizens for consideration. If approved by First Citizens, the credit card is issued by First Citizens, which retains all credit risk and servicing responsibilities. In the event an application is not approved by First Citizens, the Bank has the ability to override that decision, in which case Southern assumes the credit risk, while First Citizens retains servicing responsibilities. Southern has pledged collateral to First Citizens to secure its obligation related to credit cards initially declined by First Citizens, but subsequently issued as a result of the Bank's override decision. In the event First Citizens were to elect to sell its credit card receivables, the Bank may repurchase credit cards issued to its customers at a price determined in good faith by the Bank and First Citizens.

In addition to credit cards for our customers, credit cards used by our employees for business-related purposes are provided under agreements with First Citizens. Southern is responsible for repayment of card balances, and our obligation to First Citizens for employee credit cards is secured by pledged assets. As of December 31, 2025, the Bank had pledged investment securities available for sale with a fair value of \$2.3 million to secure its obligations to First Citizens related to the various credit card agreements.

Correspondent account balances with First Citizens included in cash and due from banks totaled \$178,000 and \$217,000 at December 31, 2025 and 2024, respectively. In addition, BancShares had sold to First Citizens loan participations of \$1.4 million and \$1.8 million as of December 31, 2025 and 2024, respectively.

BancShares owns stock and debt securities in First Citizens as follows:

	2025			2024		
	Number of shares	Amortized cost	Fair value	Number of shares	Amortized cost	Fair value
First Citizens BancShares, Inc.						
Class A common	191,963	\$ 15,322	\$ 411,987	191,963	\$ 15,322	\$ 405,622
Class B common	22,619	532	39,809	22,619	532	39,787
Preferred	198,945	4,480	4,019	198,945	4,480	4,432
Total equity securities		20,334	455,815		20,334	449,841
Investment securities available for sale at fair value		-	-		7,900	7,853
Total First Citizens BancShares, Inc. securities		\$ 20,334	\$ 455,815		\$ 28,234	\$ 457,694

BancShares is also related through common ownership with Fidelity BancShares (N.C.), Inc., ("Fidelity") as significant shareholders of BancShares and certain of their related parties are also significant shareholders of Fidelity. At December 31, 2025 and 2024 BancShares had \$3.5 million and \$4.0 million, respectively, in loan participations sold to Fidelity, and \$6.3 million and \$6.9 million, respectively, in loan participations purchased from Fidelity. Also, as discussed in Note 8, Fidelity purchased \$10 million of senior notes issued by BancShares during 2021.

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY**  
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**Note 15. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss included the following as of December 31:

	2025			2024		
	Accumulated other comprehensive loss	Deferred tax benefit (expense)	Accumulated other comprehensive loss net of tax	Accumulated other comprehensive loss	Deferred tax benefit (expense)	Accumulated other comprehensive loss net of tax
Net unrealized losses on investment securities available for sale (1)	\$ (155,917)	33,611	\$ (122,306)	\$ (233,188)	\$ 50,864	\$ (182,324)
Defined benefit pension plan	4,519	(1,450)	3,069	2,689	(609)	2,080
State tax rate adjustment	-	-	2,637	-	-	2,490
<b>Total</b>	<b>\$ (151,398)</b>	<b>\$ 32,161</b>	<b>\$ (116,600)</b>	<b>\$ (230,499)</b>	<b>\$ 50,255</b>	<b>\$ (177,754)</b>

	Unrealized gains and losses on available-for-sale securities	Defined benefit pension plan	Total
Balance at January 1, 2024	\$ (172,842)	\$ 1,983	\$ (170,859)
Other comprehensive income before reclassifications	(6,258)	(638)	(6,896)
Amounts reclassified from accumulated other comprehensive income	1	-	1
Net current period other comprehensive income	(6,257)	(638)	(6,895)
Balance at December 31, 2024	(179,099)	1,345	(177,754)
Other comprehensive loss before reclassifications	56,669	989	57,658
Amounts reclassified from accumulated other comprehensive loss	3,496	-	3,496
Net current period other comprehensive loss	60,165	989	61,154
Balance at December 31, 2025	\$ (118,934)	\$ 2,334	\$ (116,600)

(1) Unrealized gains and losses on available-for-sale securities are presented inclusive of unrealized gains and losses related to associated fair value hedge.

During 2025 and 2024, the net deferred tax benefit related to the change in net unrealized losses on investment securities available for sale was calculated by reference to state income tax rates that are projected to be in effect in the periods in which the related financial instrument either matures or is expected to be called by the issuer. The difference between the deferred tax benefit and the accumulated other comprehensive loss calculated by reference to the current state income tax rate is shown as the state tax rate adjustment within the above table.

The following table presents the amounts reclassified from accumulated other comprehensive loss and the line items within the consolidated statements of income and comprehensive income for the years ended December 31, 2025 and 2024 that were affected:

**SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY  
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**Note 15. Accumulated Other Comprehensive Loss (continued)**

Components of accumulated other comprehensive loss	Amount reclassified from accumulated other comprehensive loss	Affected line item in the statement where net income is presented
<u>Year Ended December 31, 2025</u>		
Unrealized losses on investment securities available for sale	\$ 4,511	Realized gains (losses) on investment securities available for sale
	(1,015)	Income taxes
Total reclassifications for the period	\$ 3,496	Net income
<u>Year Ended December 31, 2024</u>		
Unrealized losses on investment securities available for sale	\$ 1	Realized gains (losses) on investment securities available for sale
	-	Income taxes
Total reclassifications for the period	\$ 1	Net income

**Note 16. Subsequent Events**

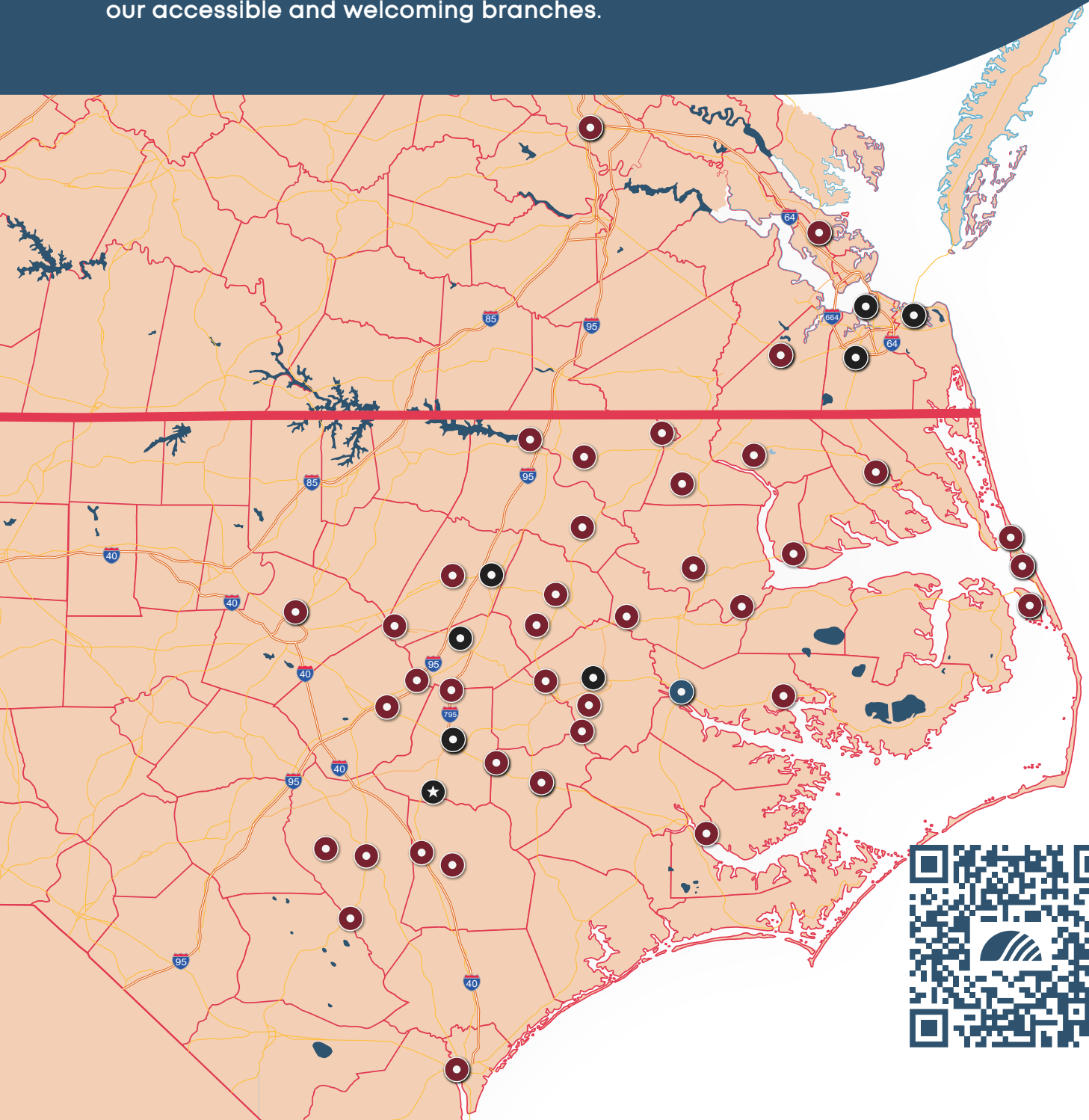
During the first quarter of 2026, Southern entered into multiple interest rate floors to manage interest rate risk. The floors have maturities between two and four years, and have an aggregate notional amount of \$195 million. The floors protect Southern from lower short-term interest rates. The 2026 interest rate floors were not designated as hedges at inception. The aggregate fair value as of the respective inception dates was \$507,000, and any subsequent gains, losses, periodic interest settlements and other changes in fair value will be reported in noninterest expense.

Management has evaluated subsequent events through March 23, 2026, the date the consolidated statements were available to be issued and, other than the event noted above, there have been no material subsequent events.

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# BRANCH LOCATIONS

With nearly 60 branches strategically located throughout North Carolina and Virginia, Southern Bank is committed to being a convenient and accessible banking partner to our communities. Our extensive network of branches and ATMs ensures that you can easily find a location near you, ready to meet your financial needs. At Southern, we believe in the importance of personal, face-to-face interactions and are dedicated to providing exceptional service to our customers. We are here to serve the community, fostering strong relationships and supporting local growth through our accessible and welcoming branches.





# Southern Bank

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