

Table of Contents

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

FORM 10-Q

(Mark One)

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

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, the transition period _____ to _____

Commission File Number: 0-26486

Auburn National Bancorporation, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of incorporation or organization)

63-0885779
(I.R.S. Employer
Identification No.)

100 N. Gay Street
Auburn, Alabama 36830
(334) 821-9200

(Address and telephone number of principal executive offices)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Title of each class	Trading	Name of each exchange on which registered
Common Stock, par value	\$125.00(s)	NASDAQ Global Market

\$0.01
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large Accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

Act. Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2024
Common Stock, \$0.01 par value per share	3,493,699 shares

[Table of Contents](#)

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

INDEX

<u>PART I. FINANCIAL INFORMATION</u>	<u>PAGE</u>
Item 1 <u>Financial Statement</u>	
<u>Consolidated Balance Sheets (Unaudited) as of September 30, 2024 and December 31, 2023</u>	3
<u>Consolidated Statements of Earnings (Unaudited) for the quarter and nine months ended September 30, 2024 and 2023</u>	4
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the quarter and nine months ended September 30, 2024 and 2023</u>	5
<u>Consolidated Statements of Stockholders' Equity (Unaudited) for the quarter and nine months ended September 30, 2024 and 2023</u>	6
<u>Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2024 and 2023</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Table 1 – Explanation of Non-GAAP Financial Measures</u>	44
<u>Table 2 – Selected Quarterly Financial Data</u>	45
<u>Table 3 – Selected Financial Data</u>	46
<u>Table 4 – Average Balances and Net Interest Income Analysis – for the quarter ended September 30, 2024 and 2023</u>	47
<u>Table 5 – Average Balances and Net Interest Income Analysis – for the nine months ended September 30, 2024 and 2023</u>	48
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4 <u>Controls and Procedures</u>	49
<u>PART II. OTHER INFORMATION</u>	
Item 1 <u>Legal Proceedings</u>	49
Item 1A <u>Risk Factors</u>	49
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
Item 3 <u>Defaults Upon Senior Securities</u>	50
Item 4 <u>Mine Safety Disclosures</u>	50
Item 5 <u>Other Information</u>	50
Item 6 <u>Exhibits</u>	51

[Table of Contents](#)

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

<i>(Dollars in thousands, except share</i>	September 30,	December 31,
	2024	2023
Assets:		
Current assets:		
Cash and due from banks	\$ 24,449	\$ 27,127
Federal funds sold	10,325	31,412
Interest-bearing bank deposits	55,056	12,830
Cash and cash equivalents	89,830	71,369
Securities available-for-sale	258,285	270,910
Loans held for sale	565	—
Loans	565,699	557,294
Allowance for credit losses	(6,876)	(6,863)
Loans, net	558,823	550,431
Premises and equipment, net	46,236	45,535
Bank-owned life insurance	17,411	17,110
Other assets	18,993	19,900
Total assets	\$ 990,143	\$ 975,255
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 270,244	\$ 270,723
Interest-bearing	631,480	625,520
Total deposits	901,724	896,243
Federal funds purchased and securities sold under agreements to repurchase	—	1,486
Accrued expenses and other liabilities	4,083	1,019
Total liabilities	905,807	898,748
Stockholders' equity:		
Preferred stock of \$1 par value; authorized 200,000 shares;		
no shares issued	—	—
Common stock of \$01 par value; authorized 8,500,000 shares;		
issued 3,957,135 shares	39	39
Additional paid-in capital	3,802	3,801
Retained earnings	115,142	113,398
Accumulated other comprehensive loss, net	(22,946)	(29,029)
Less treasury stock, at cost 163,436 shares and 163,521 at September 30, 2024 and December 31, 2023, respectively	(11,701)	(11,702)
Total stockholders' equity	84,336	76,507
Total liabilities and stockholders' equity	\$ 990,143	\$ 975,255

See accompanying notes to consolidated financial statements

[Table of Contents](#)

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
(Unaudited)

<i>(Dollars in thousands, except share and per share)</i>	Quarter ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Interest income:				
Loans, including fees	\$ 7,641	\$ 6,373	\$ 22,082	\$ 18,146
Securities:				
Taxable	1,327	1,783	4,109	5,474
Tax-exempt	77	402	225	1,209
Federal funds sold and interest-bearing bank deposits	914	85	2,356	442
Total interest income	9,959	8,643	28,772	25,271
Interest expense:				
Deposits	3,169	2,334	8,613	4,934
Short-term borrowings	—	37	3	68
Total interest expense	3,169	2,371	8,616	5,002
Net interest income	6,790	6,272	20,156	20,269
Provision for (reversal of) credit losses	(127)	105	84	(191)
Net interest income after provision for credit losses	6,917	6,167	20,072	20,460
Noninterest income:				
Service charges on deposit accounts	154	148	463	456
Mortgage lending	133	110	463	345
Bank-owned life insurance	100	87	301	311
Other	459	520	1,402	1,336
Total noninterest income	846	865	2,629	2,448
Noninterest expense:				
Salaries and benefits	3,148	2,844	9,359	8,809
Net occupancy and equipment	614	755	1,980	2,341
Professional fees	291	261	931	898
Other	1,447	1,502	4,424	4,743
Total noninterest expense	5,500	5,362	16,694	16,791
Earnings before income taxes	2,263	1,670	6,007	6,117
Income tax expense	531	182	1,170	737
Net earnings	\$ 1,732	\$ 1,488	\$ 4,837	\$ 5,380
Net earnings per share:				
Basic and diluted	\$ 0.50	\$ 0.43	\$ 1.38	\$ 1.54
Weighted average shares outstanding:				
Basic and diluted	3,493,699	3,496,411	3,493,687	3,499,518

See accompanying notes to consolidated financial statements

[Table of Contents](#)

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)

<i>(Dollars in thousands)</i>	<u>Quarter ended September 30,</u>		<u>Nine months ended September 30,</u>	
	2024	2023	2024	2023
Net earnings	\$ 1,732	\$ 1,488	\$ 4,837	\$ 5,380
Other comprehensive income (loss):				
Unrealized gain (loss) on securities	11,133	(13,275)	8,121	(10,808)
Related tax (expense) benefit	(2,795)	3,334	(2,038)	2,715
Other comprehensive income (loss), net of tax	8,338	(9,941)	6,083	(8,093)
Comprehensive income (loss)	\$ 10,070	\$ (8,453)	\$ 10,920	\$ (2,713)

See accompanying notes to consolidated financial statements

[Table of Contents](#)

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Unaudited)

<i>(Dollars in thousands, except share data)</i>	Common Shares Outstanding	Common Stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Quarter ended September 30, 2024							
Balance, June 30, 2024	3,493,699	\$ 39	\$ 3,802	\$ 114,353	\$ (31,284)	\$ (11,701)	\$ 75,209
Net earnings	—	—	—	1,732	—	—	1,732
Other comprehensive income	—	—	—	—	8,338	—	8,338
Cash dividends paid (\$1 per share)	—	—	—	(943)	—	—	(943)
Balance, September 30, 2024	3,493,699	\$ 39	\$ 3,802	\$ 115,142	\$ (22,946)	\$ (11,701)	\$ 84,336
Quarter ended September 30, 2023							
Balance, June 30, 2023	3,499,412	\$ 39	\$ 3,800	\$ 117,781	\$ (39,072)	\$ (11,572)	\$ 70,976
Net earnings	—	—	—	1,488	—	—	1,488
Other comprehensive loss	—	—	—	—	(9,941)	—	(9,941)
Cash dividends paid (\$1 per share)	—	—	—	(943)	—	—	(943)
Stock	(5,883)	—	—	—	—	(130)	(130)
Repurchases	85	—	1	—	—	—	1
Balance, September 30, 2023	3,493,614	\$ 39	\$ 3,801	\$ 118,326	\$ (49,013)	\$ (11,702)	\$ 61,451
Nine months ended September 30, 2024							
Balance, December 31, 2023	3,493,614	\$ 39	\$ 3,801	\$ 113,398	\$ (29,029)	\$ (11,702)	\$ 76,507
Cumulative effect of change in accounting standard ASC 326	—	—	—	(263)	—	—	(263)
Net earnings	—	—	—	4,837	—	—	4,837
Other comprehensive income	—	—	—	—	6,083	—	6,083
Cash dividends paid (\$1 per share)	—	—	—	(2,830)	—	—	(2,830)
Sale of treasury stock	85	—	1	—	—	1	2
Balance, September 30, 2024	3,493,699	\$ 39	\$ 3,802	\$ 115,142	\$ (22,946)	\$ (11,701)	\$ 84,336
Nine months ended September 30, 2023							
Balance, December 31, 2022	3,503,452	\$ 39	\$ 3,797	\$ 116,600	\$ (40,920)	\$ (11,475)	\$ 68,041
Cumulative effect of change in accounting standard ASU 2023-12	—	—	—	(821)	—	—	(821)
Net earnings	—	—	—	5,380	—	—	5,380
Other comprehensive loss	—	—	—	—	(8,093)	—	(8,093)
Cash dividends paid (\$1 per share)	—	—	—	(2,833)	—	—	(2,833)
Stock	(10,108)	—	—	—	—	(229)	(229)
Repurchases	270	—	4	—	—	2	6
Balance, September 30, 2023	3,493,614	\$ 39	\$ 3,801	\$ 118,326	\$ (49,013)	\$ (11,702)	\$ 61,451

See accompanying notes to consolidated financial statements

[Table of Contents](#)

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

<i>(Dollars in thousands)</i>	<u>Nine months ended September 30,</u>	
	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Net earnings	\$ 4,837	\$ 5,380
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for (reversal of) credit losses	84	(191)
Depreciation and amortization	1,402	1,278
Premium amortization and discount accretion, net	1,155	1,834
Net gain on sale of loans held for sale	(194)	(81)
Loans originated for sale	(8,427)	(3,417)
Proceeds from sale of loans	8,002	3,482
Increase in cash surrender value of bank-owned life insurance	(301)	(259)
Income recognized from death benefit on bank-owned life insurance	—	(52)
Net (increase) decrease in other assets	(1,545)	47
Net increase in accrued expenses and other liabilities	2,996	2,672
Net cash provided by operating activities	8,009	10,693
Cash flows from investing activities:		
Proceeds from prepayments and maturities of securities available-for-sale	19,592	19,377
Increase in loans, net	(8,407)	(41,025)
Net purchases of premises and equipment	(1,930)	(170)
Proceeds from bank-owned life insurance death benefit	—	216
Proceeds from surrender of bank-owned life insurance	—	3,037
Decrease (increase) in FHLB stock	32	(164)
Net cash provided by (used in) investing activities	9,287	(18,729)
Cash flows from financing activities:		
Net decrease in noninterest-bearing deposits	(479)	(32,717)
Net increase in interest-bearing deposits	5,960	46,982
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(1,486)	(810)
Stock repurchases	—	(229)
Dividends paid	(2,830)	(2,833)
Net cash provided by financing activities	1,165	10,393
Net change in cash and cash equivalents	18,461	2,357
Cash and cash equivalents at beginning of period	71,369	27,254
Cash and cash equivalents at end of period	\$ 89,830	\$ 29,611
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 8,433	\$ 4,384
Income taxes	589	800

See accompanying notes to consolidated financial statements

[Table of Contents](#)

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements (Unaudited)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Auburn National Bancorporation, Inc. (the "Company") provides a full range of banking services to individuals and commercial customers in Lee County, Alabama and surrounding areas through its wholly owned subsidiary, ~~Auburn Bank~~. The Company does not have any segments other than banking that are considered material.

Basis of Presentation and Use of Estimates

The unaudited consolidated financial statements in this report have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, these financial statements do ~~not~~ include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited consolidated financial statements include, in the opinion of management, all adjustments necessary to present a fair statement of the financial position and the results of operations for all periods presented. All such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the ~~operations~~ that the Company and its subsidiaries may achieve for future interim periods or the entire year. For ~~further~~ information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on ~~Form~~ for the year ended December 31, 2023.

The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned ~~subsidiaries~~. Intercompany transactions and accounts are eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and ~~liabilities~~ at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual ~~differs from~~ those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of allowance for credit losses on loans and investment securities, fair value of financial instruments, and the valuation of deferred tax assets and other real estate owned ("OREO").

Revenue Recognition

The Company's sources of income that fall within the scope of ASC 606 include service charges on deposits, ATM ~~interchange~~ fees and gains and losses on sales of other real estate, all of which are presented as components of ~~revenue~~. The following is a summary of the revenue streams that fall within the scope of ASC 606:

- Service charges on deposits, investment services, ATM and interchange fees – Fees from these services ~~are transaction-based, for which the performance obligations are satisfied when the individual transaction is processed, or (ii) set periodic service charges, for which the performance obligations are satisfied over the period~~ service is provided. Transaction-based fees are recognized at the time the transaction is processed, and ~~periodic~~ charges are recognized over the service period.
- Gains on sales of OREO A gain on sale should be recognized when a contract for sale exists and control of asset has been transferred ~~to~~ the buyer. ASC 606 lists several criteria required to conclude that a contract ~~exists~~ including a determination that the institution will collect substantially all of the consideration to which it ~~is entitled~~. In addition to the loan-to-value ratio, where the seller provides the purchaser with financing, the ~~analyses~~ on various other factors, including the credit quality of the purchaser, the structure of the loan, and ~~other~~ factors that we believe may affect collectability.

Subsequent Events

The Company has evaluated the effects of events and transactions through the date of this filing that have ~~subsequent~~ to September 30, 2024. The Company does not believe there were any material subsequent events ~~period that~~ would have required further recognition or disclosure in the unaudited consolidated financial statements included in this report.

Table of Contents

Correction of Error

The disclosure of loans by vintage in Note 5 – Loans and Allowance for Credit Losses in the Company's Annual Report 10-K for year ended December 31, 2023 contained incorrect information as it pertains to loans originated by vintage and revolving loans. All current period gross charge-off data, total loans by segment and total loans by credit quality indicator were correctly reported. The loans originated by vintage and revolving loans as of December 31, 2023 have been reflected in the comparative presentation in Note 5 – Loans and Allowance for Credit Losses in the Notes herein.

Reclassifications

Certain amounts reported in prior periods have been reclassified to conform to the current-period presentation. These classifications had no effect on the Company's previously reported net earnings or total stockholders' equity.

Accounting Standards Adopted in 2024

On January 1, 2024, the Company adopted ASU 2023-02 *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. ASU 2023-02 now permits reporting entities to elect to account for their equity investments made primarily to receive income tax credits after income tax benefits, regardless of the program from which the income tax credits or benefits are received, proportional amortization method if certain conditions are met. The new standard is effective for fiscal years, and periods within those fiscal years, beginning after December 15, 2023. The Company adopted ASU 2023-02 effective January 1, 2024 and recorded a cumulative effect of change in accounting standard adjustment which reduced beginning earnings by \$0.3 million. The Company, beginning January 1, 2024, accounts for its investments in New Market Credits ("NMTCs") using the proportional amortization method through charges to the provision for income taxes of variable interest entities.

NOTE 2: BASIC AND DILUTED NET EARNINGS PER SHARE

Basic net earnings per share is computed by dividing net earnings by the weighted average common shares outstanding for the period. Diluted net earnings per share reflect the potential dilution that could occur upon exercise of securities or other rights for, or convertible into, shares of the Company's common stock. At September 30, 2024, respectively, the Company had no such securities or rights issued or outstanding, and therefore, no dilutive effect for the diluted net earnings per share calculation.

The basic and diluted net earnings per share computations for the respective periods are presented below

(Dollars in thousands, except share and per share data)	Quarter ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Basic and diluted:				
Net earnings	\$ 1,732	\$ 1,488	\$ 4,837	\$ 5,380
Weighted average common shares outstanding	3,493,699	3,496,411	3,493,687	3,499,518
Net earnings per share	\$ 0.50	\$ 0.43	\$ 1.38	\$ 1.54

NOTE 3: VARIABLE INTEREST ENTITIES

Generally, a variable interest entity ("VIE") is a corporation, partnership, trust or other legal structure that does not equity investors with substantive or proportional voting rights or has equity investors that do not provide sufficient financials for the entity to support its activities.

Table of Contents

At September 30, 2024, the Company did not have any consolidated VIEs but did have one nonconsolidated VIE, ~~discussed~~

New Markets Tax Credit Investment

The NMTC program provides federal tax incentives to investors to make investments in distressed communities ~~and promotes economic improvement through the development of successful businesses in these communities.~~ ~~and~~ ~~investors over seven years and are subject to recapture if certain events occur during such period.~~ At September 30, 2024 and December 31, 2023, respectively, the Company had one such investment of \$1.0 million ~~and \$1.~~ ~~respectively, which was included in other assets in the Company's consolidated balance sheets as a VIE.~~ ~~Wh~~ ~~the Company's investment exceeds 50% of the outstanding equity interest in this VIE, the Company does not~~ ~~control~~ ~~the Company lacks the power to direct the activities of the VIE, and therefore is not a primary beneficiary of~~

On March 29, 2023, the FASB issued ASU 2023-02, which was effective beginning in 2024 for public business entities.

We have adopted ASU 2023-02 as of January 1, 2024 with respect to accounting for our NMTC investment. ~~pro~~ ~~portion~~ ~~amortization~~ ~~method~~ results in the tax credit investment being amortized in proportion to the allocation of ~~re~~ ~~bits~~ and other tax benefits in each period and a net presentation within the income tax line item. The cumulative ~~effe~~ ~~change~~ in accounting standard resulted in a \$0.4 million pre-tax decrease in the Company's NMTC ~~investment~~ ~~2024~~. See Note 1: Summary of Significant Accounting Policies – Accounting Standards Adopted in 2024.

<i>(Dollars in thousands)</i>	<i>Maximum Loss Exposure</i>	<i>Asset Recognized</i>	<i>Classification</i>
Type:			
New Markets Tax Credit investment	\$ 990	\$ 990	Other assets

NOTE 4: SECURITIES

At September 30, 2024 and December 31, 2023, respectively, all securities within the scope of ~~ASU 2020-01 – Debt and Equity Securities~~ were classified as available-for-sale. The fair value and amortized cost for securities for-sale by contractual maturity at September 30, 2024 and December 31, 2023, respectively, are presented below.

<i>(Dollars in thousands)</i>	<i>1 year or less</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>After 10 years</i>	<i>Fair Value</i>	<i>Gross Unrealized Gains</i>	<i>Amortized Cost</i>
September 30, 2024							
Agency obligations (a)	\$ —	22,691	31,386	—	54,077	—	6,157 \$ 60,234
Agency MBS (a)	30	20,345	16,191	149,288	185,854	—	22,204 208,058
State and political subdivisions	—	589	9,735	8,030	18,354	1	2,282 20,635
Total available-for-sale	\$ 30	43,625	57,312	157,318	258,285	1	30,643 \$ 288,927
December 31, 2023							
Agency obligations (a)	\$ 331	10,339	43,209	—	53,879	—	8,195 \$ 62,074
Agency MBS (a)	32	15,109	22,090	161,058	198,289	—	27,838 226,127
State and political subdivisions	—	—	9,691	9,051	18,742	1	2,731 21,472
Total available-for-sale	\$ 363	25,448	74,990	170,109	270,910	1	38,764 \$ 309,673

(a) Includes securities issued by U.S. government agencies or government -sponsored entities. Expected lives of these securities may differ from contractual maturities because (i) issuers may have the right to call or repay such ~~obligations~~ with or without prepayment penalties and (ii) loans included in Agency MBS generally have the right to repay such loan in whole or in part at any time.

Securities with aggregate fair values of \$5.8 million and \$11.8 million at September 30, 2024 and December 31, 2023, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, ~~Federal Home Loan Bank of Atlanta~~ ("FHLB of Atlanta") advances, and for other purposes required or permitted by law.

Table of Contents

Included in other assets on the accompanying consolidated balance sheets include non-marketable equity investments. The fair values of non-marketable equity investments were \$43 million at September 30, 2024 and December 31, 2023, respectively. Non-marketable equity investments include FHLB Atlanta stock, Federal Reserve Bank of Atlanta ("FRB") stock, and stock in a privately held financial institution.

Gross Unrealized Losses and Fair Value

The fair values and gross unrealized losses on securities at September 30, 2024 and December 31, 2023, respectively, by those securities that have been in an unrealized loss position for less than 12 months and 12 months or longer are presented below.

(Dollars in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2024:						
Agency obligations	\$ —	—	54,077	6,157	\$ 54,077	6,157
Agency MBS	—	—	185,837	22,204	185,837	22,204
State and political subdivisions	621	4	14,782	2,278	15,403	2,282
Total	\$ 621	4	254,696	30,639	\$ 255,317	30,643
December 31, 2023:						
Agency obligations	\$ —	—	53,879	8,195	\$ 53,879	8,195
Agency MBS	66	1	198,223	27,837	198,289	27,838
State and political subdivisions	793	2	14,408	2,729	15,201	2,731
Total	\$ 859	3	266,510	38,761	\$ 267,369	38,764

For the securities in the previous table, the Company considers the severity of the unrealized loss as well as the likelihood the securities to maturity or the recovery of the cost basis. Unrealized losses have not been recognized income as the decline in fair value is largely due to changes in interest rates and other market conditions. For the held-to-maturity September 30, 2024 in the table immediately above, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their recovery.

Agency Obligations

Investments in agency obligations are guaranteed as to full and timely payment of principal and interest by the agency. Based on management's analysis and judgement, there were no credit losses attributable to the Company's investments in agency obligations at September 30, 2024.

Agency MBS

Investments in agency mortgage-backed securities ("MBS") are MBS issued by Ginnie Mae, Fannie Mae, and Freddie Mac. Each of these agencies provide a guarantee of full and timely payments of principal and interest on their MBS by the issuing agency. Based on management's analysis and judgement, there were no credit losses on Company's investments in agency MBS at September 30, 2024.

State and Political Subdivisions

Investments in state and political subdivisions are securities issued by various municipalities in the United States. The majority of these securities were rated AA or higher, with no securities rated below investment grade at September 30, 2024. Based on management's analysis and judgement, there were no credit losses attributable to the Company's investments in state and political subdivisions at September 30, 2024.

Realized Gains and Losses

The Company had no realized gains or losses on sale of securities during the nine months ended September 30, 2023, respectively.

[Table of Contents](#)

NOTE 5: LOANS AND ALLOWANCE FOR CREDIT LOSSES

<i>(Dollars in thousands)</i>	September 30, 2024	December 31, 2023
Commercial and industrial	\$ 61,510	\$ 73,374
Construction and land development	77,956	68,329
Commercial real estate:		
Owner occupied	62,029	66,783
Hotel/motel	37,913	39,131
Multi-family	43,789	45,841
Other	154,042	135,552
Total commercial real estate	297,773	287,307
Residential real estate:		
Consumer mortgage	59,265	60,545
Investment property	59,317	56,912
Total residential real estate	118,582	117,457
Consumer installment	9,878	10,827
Total Loans	\$ 565,699	\$ 557,294

Loans secured by real estate were approximately 87.4% of the Company's total loan portfolio at September 30, ~~September~~ 2024, the Company's geographic loan distribution was concentrated primarily in Lee County, ~~Alabama~~ and ~~and~~ areas.

The loan portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. As part of the Company's quarterly assessment of the allowance, the portfolio included the following portfolio segments: commercial and industrial, construction and land development, commercial real estate, residential real estate, and consumer installment. Where appropriate, the Company's loan segments are further disaggregated into classes. A class is generally determined based on the initial measurement risk characteristics of the loan, and an entity's method for monitoring and determining credit risk.

The following describes the risk characteristics relevant to each of the portfolio segments and classes.

Commercial and industrial ("C&I") — includes loans to finance business operations, equipment purchases, or other for small and medium-sized commercial ~~needs~~ customers. Also included in this category are loans to finance agricultural production. Generally, the primary source of repayment is the cash flow from business operations and activities of ~~the~~ borrower.

Construction and land development ("C&D") — includes both loans and credit lines for the purpose of purchasing, carrying, and developing land into commercial developments or residential subdivisions. Also included are loans and credit for construction of residential, multi-family, and commercial buildings. Generally, the primary source of ~~repayment~~ is dependent upon the sale or refinance of the real estate collateral.

Commercial real estate ("CRE") — includes loans in these classes:

- *Owner occupied*— includes loans secured by business facilities to finance business operations, equipment owner-occupied ~~and~~ facilities primarily for small and medium-sized commercial customers. Generally, the ~~primary~~ of repayment is the cash flow from business operations and activities of the borrower, who owns the property.
- *Hotel/motel*— includes loans for hotels and motels. Generally, the primary source of repayment is dependent income generated from the hotel/motel securing the loan. The underwriting of these loans takes into ~~consideration~~ and rental rates, as well as the financial health of the borrower.

Table of Contents

- *Multi-family* – primarily includes loans to finance income-producing multi-family properties. These include for 5 or more ~~units~~ residential properties and apartments leased to residents. Generally, the primary source of repayment is dependent upon income generated from the real estate collateral. The underwriting of these ~~takes~~ into consideration the occupancy and rental rates, as well as the financial health of the respective borrowers.
- *Other* – primarily includes loans to finance income-producing commercial properties other than hotels/motels multi-family properties, and which are not owner occupied. Loans in this class include loans for ~~neighborhood~~ medical and professional offices, single retail stores, industrial buildings, and warehouses ~~leased to~~ other businesses. Generally, the primary source of repayment is dependent upon income ~~generated from~~ collateral. The underwriting of these loans takes into consideration the occupancy and rental ~~as well as~~ as well as the financial health of the borrower.

Residential real estate ("RRE") –includes loans in these two classes:

- *Consumer mortgage*- primarily includes first or second lien mortgages and home equity lines of credit to consumers that are secured by a primary residence or second home. These loans are underwritten in accordance with the Bank's general loan policies and procedures which require, among other things, proper documentation of financial condition, satisfactory credit history, and property value.
- *Investment property*- primarily includes loans to finance income-producing 1-4 family residential properties. Generally, the primary source of repayment is dependent upon income generated from leasing the property securing the loan. The underwriting of these loans takes into consideration the rental rates and property ~~values, the~~ financial health of the borrowers.

Consumer installment –includes loans to individuals, which may be secured by personal property or are unsecured. include personal lines of ~~Loans~~, automobile loans, and other retail loans. These loans are underwritten in accordance with the Bank's general loan policies and procedures which require, among other things, proper documentation of each borrower's financial condition, satisfactory credit history, and, if applicable, property values.

[Table of Contents](#)

The following is a summary of current, accruing past due, and nonaccrual loans by portfolio segment and ~~September~~ 30, 2024 and December 31, 2023.

<i>(Dollars in thousands)</i>	Current	Accruing		Total Accruing Loans	Non-Accrual	Total Loans
		30-89 Days Past Due	Greater than 90 days			
September 30, 2024:						
Commercial and industrial	\$ 61,508	2	—	61,510	—	\$ 61,510
Construction and land development	77,956	—	—	77,956	—	77,956
Commercial real estate:						
Owner occupied	61,294	—	—	61,294	735	62,029
Hotel/motel	37,913	—	—	37,913	—	37,913
Multi-family	43,789	—	—	43,789	—	43,789
Other	154,042	—	—	154,042	—	154,042
Total commercial real estate	297,038	—	—	297,038	735	297,773
Residential real estate:						
Consumer mortgage	59,225	—	—	59,225	40	59,265
Investment property	59,267	50	—	59,317	—	59,317
Total residential real estate	118,492	50	—	118,542	40	118,582
Consumer installment	9,822	56	—	9,878	—	9,878
Total	\$ 564,816	108	—	564,924	775	\$ 565,699
December 31, 2023:						
Commercial and industrial	\$ 73,108	266	—	73,374	—	\$ 73,374
Construction and land development	68,329	—	—	68,329	—	68,329
Commercial real estate:						
Owner occupied	66,000	—	—	66,000	783	66,783
Hotel/motel	39,131	—	—	39,131	—	39,131
Multi-family	45,841	—	—	45,841	—	45,841
Other	135,552	—	—	135,552	—	135,552
Total commercial real estate	286,524	—	—	286,524	783	287,307
Residential real estate:						
Consumer mortgage	60,442	—	—	60,442	103	60,545
Investment property	56,597	290	—	56,887	25	56,912
Total residential real estate	117,039	290	—	117,329	128	117,457
Consumer installment	10,781	46	—	10,827	—	10,827
Total	\$ 555,781	602	—	556,383	911	\$ 557,294

[Table of Contents](#)

Credit Quality Indicators

The credit quality of the loan portfolio is summarized no less frequently than quarterly using categories similar to the standard asset classification system used by the federal banking agencies. These categories are utilized to develop the associated allowance for credit losses using historical losses adjusted for qualitative and environmental factors and defined as follows:

- Pass – loans which are well protected by the current net worth and paying capacity of the obligor (or ~~greater than~~ fair value, less cost to acquire and sell, of any underlying collateral).
- Special Mention – loans with potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. These loans are not adversely classified ~~and~~ pose an institution to sufficient risk to warrant an adverse classification.
- Substandard Accruing – loans that exhibit a well-defined weakness which presently jeopardizes debt ~~even though~~ they are currently performing. These loans are characterized by the distinct possibility that the Company may incur a loss in the future if these weaknesses are not corrected.
- Nonaccrual – includes loans where management has determined that full payment of principal and interest ~~is expected~~.

Substandard accrual and nonaccrual loans are often collectively referred to as "classified."

[Table of Contents](#)

The following tables presents credit quality indicators for the loan portfolio segments and classes by year of origination as of September 30, 2024 and December 31, 2023. The December 31, 2023 table has been revised to correct and reorganize to allocate loans by year of origination. See Note 1: Summary of Significant Accounting Policies – Classification

Year of Origination	2024	2023	2022	2021	2020	Prior to 2020	Revolving Loans	Total Loans
<i>(Dollars in thousands)</i>								
September 30, 2024:								
Commercial and industrial								
Special mention	\$ 7,681	8,962	9,107	12,860	5,011	16,779	691	61,091
Substandard	52	105	180	8	—	—	—	345
Nonaccrual	—	—	—	—	—	—	—	—
Total commercial and industrial	7,733	9,141	9,287	12,868	5,011	16,779	691	61,510
Current period gross charge-offs								
Construction and land development								
Special mention	24,407	27,562	16,378	1,430	1,282	105	5,983	77,147
Substandard	340	—	—	—	—	—	—	340
Nonaccrual	469	—	—	—	—	—	—	469
Total construction and land development	25,216	27,562	16,378	1,430	1,282	105	5,983	77,956
Current period gross charge-offs								
Commercial real estate: occupied								
Pass	767	12,556	6,618	13,764	9,855	12,928	4,040	60,528
Special mention	515	251	—	—	—	—	—	766
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	735	—	735
Total owner occupied	1,282	12,807	6,618	13,764	9,855	13,663	4,040	62,029
Current period gross charge-offs								
Hotel/motel								
Pass	494	8,718	9,547	3,111	1,348	14,695	—	37,913
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total hotel/motel	494	8,718	9,547	3,111	1,348	14,695	—	37,913
Current period gross charge-offs								

[Table of Contents](#)

Year of Origination	2024	2023	2022	2021	2020	Prior to 2020	Revolving Loans	Total Loans
<i>(Dollars in thousands)</i>								
September 30, 2024:								
Multi-family								
Pass	126	12,087	17,148	1,897	5,914	6,056	561	43,789
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total multi-family	126	12,087	17,148	1,897	5,914	6,056	561	43,789
Current period gross charge-offs								
Other								
Pass	36,654	23,388	31,866	30,040	11,507	14,062	5,507	153,024
Special mention	894	—	—	—	—	—	—	894
Substandard	—	—	—	—	124	—	—	124
Nonaccrual	—	—	—	—	—	—	—	—
Total	37,548	23,388	31,866	30,040	11,631	14,062	5,507	154,042
Other								
Residential real estate								
Consumer mortgage								
Pass	3,620	17,511	17,178	2,419	2,589	11,313	3,514	58,144
Special mention	—	—	—	—	—	488	—	488
Substandard	—	—	—	—	—	593	—	593
Nonaccrual	—	—	—	—	—	40	—	40
Total consumer mortgage	3,620	17,511	17,178	2,419	2,589	12,434	3,514	59,265
Current period gross charge-offs								
Investment property								
Pass	9,911	11,805	10,989	8,739	11,797	5,128	369	58,738
Special mention	—	—	—	10	—	—	—	10
Substandard	174	80	94	—	221	—	—	569
Nonaccrual	—	—	—	—	—	—	—	—
Total investment property	10,085	11,885	11,083	8,749	12,018	5,128	369	59,317
Current period gross charge-offs								
Consumer installment								
Pass	4,287	2,765	2,195	330	96	151	22	9,846
Special mention	—	9	—	10	—	—	—	19
Substandard	9	—	4	—	—	—	—	13
Nonaccrual	—	—	—	—	—	—	—	—
Total consumer	4,296	2,774	2,199	340	96	151	22	9,878
Current period gross charge-offs								
Total								
Loans								
Pass	87,947	125,354	121,026	74,590	49,399	81,217	20,687	560,220
Special mention	1,749	334	—	20	—	488	—	2,591
Substandard	704	185	278	8	345	593	—	2,113
Nonaccrual	—	—	—	—	—	775	—	775
Total loans	\$ 90,400	125,873	121,304	74,618	49,744	83,073	20,687	\$ 565,699
Current period gross charge-offs								
Total								
\$ 146								

[Table of Contents](#)

Year of Origination	2023	2022	2021	2020	2019	Prior to 2019	Revolving Loans	Total Loans
<i>(Dollars in thousands)</i>								
December 31, 2023:								
Commercial and industrial	\$ 11,571	18,074	13,746	5,602	7,298	7,819	9,003	\$ 73,113
Special mention	—	—	—	—	—	—	—	—
Substandard	55	203	—	—	3	—	—	261
Nonaccrual	—	—	—	—	—	—	—	—
Total commercial and industrial	11,626	18,277	13,746	5,602	7,301	7,819	9,003	73,374
Current period gross charge-offs	—	—	13	—	151	—	—	164
Construction and land development	38,646	25,382	1,716	1,526	120	157	782	68,329
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total construction and land development	38,646	25,382	1,716	1,526	120	157	782	68,329
Current period gross charge-offs	—	—	—	—	—	—	—	—
Commercial real estate occupied	—	—	—	—	—	—	—	—
Pass	12,966	7,337	18,548	10,458	3,948	9,786	2,647	65,690
Special mention	260	—	—	—	—	—	—	260
Substandard	—	—	—	—	50	—	—	50
Nonaccrual	—	—	—	—	783	—	—	783
Total owner occupied	13,226	7,337	18,548	10,458	4,781	9,786	2,647	66,783
Current period gross charge-offs	—	—	—	—	—	—	—	—
Hotel/motel	—	—	—	—	—	—	—	—
Pass	9,025	9,873	3,205	1,493	3,881	11,654	—	39,131
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total hotel/motel	9,025	9,873	3,205	1,493	3,881	11,654	—	39,131
Current period gross charge-offs	—	—	—	—	—	—	—	—

[Table of Contents](#)

Year of Origination	2023	2022	2021	2020	2019	Prior to 2019	Revolving Loans	Total Loans
<i>(Dollars in thousands)</i>								
December 31, 2023:								
Multi-family								
Pass	12,379	17,955	1,953	6,112	3,790	3,043	609	45,841
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total multi-family	12,379	17,955	1,953	6,112	3,790	3,043	609	45,841
Current period gross charge-offs								
Other								
Pass	25,810	36,076	31,687	14,597	10,736	15,440	1,052	135,398
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	154	—	—	—	154
Nonaccrual	—	—	—	—	—	—	—	—
Total	25,810	36,076	31,687	14,751	10,736	15,440	1,052	135,552
Other								
Residential real estate								
Consumer mortgage								
Pass	20,147	20,177	2,683	2,665	1,281	12,217	249	59,419
Special mention	—	—	—	—	190	305	—	495
Substandard	—	—	—	—	—	528	—	528
Nonaccrual	—	—	—	—	—	103	—	103
Total consumer mortgage	20,147	20,177	2,683	2,665	1,471	13,153	249	60,545
Current period gross charge-offs								
Investment property								
Pass	13,398	12,490	9,397	12,209	5,485	1,865	1,478	56,322
Special mention	41	—	—	—	—	—	—	41
Substandard	43	248	—	233	—	—	—	524
Nonaccrual	—	—	—	—	—	25	—	25
Total investment property	13,482	12,738	9,397	12,442	5,485	1,890	1,478	56,912
Current period gross charge-offs								
Consumer installment								
Pass	5,688	3,837	740	206	106	141	—	10,718
Special mention	9	25	9	2	—	—	—	45
Substandard	37	11	5	11	—	—	—	64
Nonaccrual	—	—	—	—	—	—	—	—
Total consumer	5,734	3,873	754	219	106	141	—	10,827
Current period gross charge-offs								
Total								
Loans								
Pass	149,630	151,201	83,675	54,868	36,645	62,122	15,820	553,961
Special mention	310	25	9	2	190	305	—	841
Substandard	135	462	5	398	53	528	—	1,581
Nonaccrual	—	—	—	—	783	128	—	911
Total loans	\$ 150,075	151,688	83,689	55,268	37,671	63,083	15,820	\$ 557,294
Total current period gross charge-offs								
\$ 34								
26								
1								
151								
—								
269								

[Table of Contents](#)

Allowance for Credit Losses

The Company adopted ASC 326 on January 1, 2023, which introduced the CECL methodology for estimating all ~~expected~~ ^{losses} over the life of a financial asset. Under the CECL methodology, the allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics, and for loans that do not share similar risk characteristics, ^{where applicable} individually evaluated pools, evaluations are performed on an individual basis.

The composition of the provision for (reversal of) credit losses for the respective periods is presented below.

(Dollars in thousands)	Quarter ended September 30,		Nine months ended September	
	2024	2023	30, 2024	2023
Provision for credit losses:				
Loans	\$ (206)	\$ 158	\$ 15	\$ (133)
Reserve for unfunded commitments	79	(53)	69	(58)
Total provision for (reversal of) credit losses	\$ (127)	\$ 105	\$ 84	\$ (191)

The following table details the changes in the allowance for credit losses for loans, by portfolio segment, for the ~~respective~~

(Dollars in thousands)	Construction					Total
	Commercial and industrial	and land development	Commercial real estate	Residential real estate	Consumer installment	
Quarter ended:						
September 30, 2024						
Beginning balance	\$ 1,366	942	4,091	603	140	\$ 7,142
Charge-offs	—	—	—	(54)	(40)	(94)
Recoveries	25	—	—	2	7	34
Net (charge-offs) recoveries	25	—	—	(52)	(33)	(60)
Provision for (reversal of) credit losses	(231)	43	(102)	44	40	(206)
Ending balance	\$ 1,160	985	3,989	595	147	\$ 6,876
Nine months ended:						
September 30, 2024						
Beginning balance	\$ 1,288	960	3,921	546	148	\$ 6,863
Charge-offs	(9)	—	—	(54)	(83)	(146)
Recoveries	99	—	—	7	38	144
Net recoveries (charge-offs)	90	—	—	(47)	(45)	(2)
Provision for (reversal of) credit losses	(218)	25	68	96	44	15
Ending balance	\$ 1,160	985	3,989	595	147	\$ 6,876

[Table of Contents](#)

<i>(Dollars in thousands)</i>	Commercial and industrial	Construction and land development	Commercial real estate	Residential real estate	Consumer installment	Total
Quarter ended:						
September 30, 2023						
Beginning balance	\$ 1,198	1,005	3,788	529	114	\$ 6,634
Charge-offs	—	—	—	—	(18)	(18)
Recoveries	1	—	—	2	1	4
Net recoveries (charge-offs)	1	—	—	2	(17)	(14)
Provision for (reversal of) credit losses	16	68	15	20	39	158
Ending balance	\$ 1,215	1,073	3,803	551	136	\$ 6,778
Nine months ended:						
September 30, 2023						
Beginning balance	\$ 747	949	3,109	828	132	\$ 5,765
Impact of adopting ASC 326	532	(17)	873	(347)	(22)	1,019
Charge-offs	—	—	—	—	(85)	(85)
Recoveries	197	—	—	12	3	212
Net recoveries (charge-offs)	197	—	—	12	(82)	127
Provision for (reversal of) credit losses	(261)	141	(179)	58	108	(133)
Ending balance	\$ 1,215	1,073	3,803	551	136	\$ 6,778

The following table presents the amortized cost basis of collateral dependent loans, which are individually ~~estimated~~ expected credit losses as of September 30, 2024 and December 31, 2023:

<i>(Dollars in thousands)</i>	Real Estate	Total Loans
September 30, 2024:		
Commercial real estate	\$ 735	\$ 735
Total	\$ 735	\$ 735
December 31, 2023:		
Commercial real estate	\$ 783	\$ 783
Total	\$ 783	\$ 783

The following table summarizes the Company's nonaccrual loans by major categories as of September 30, ~~December~~ 31, 2023.

<i>(Dollars in thousands)</i>	CECL		
	Nonaccrual loans with no Allowance	Nonaccrual loans with an Allowance	Total
September 30, 2024			
Commercial real estate	\$ 735	—	735
Residential real estate	—	40	40
Total	\$ 735	40	775
December 31, 2023			
Commercial real estate	\$ 783	—	783
Residential real estate	—	128	128
Total	\$ 783	128	911

[Table of Contents](#)

NOTE 6: MORTGAGE SERVICING RIGHTS, NET

Mortgage servicing rights ("MSRs") are recognized based on the fair value of the servicing rights on the date the corresponding mortgage loans are sold. An estimate of the fair value of the Company's MSRs is determined using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rates, default rates, costs to service, escrow account earnings, contractual servicing income, ancillary income, and late fees. Subsequent to the date of transfer, the Company has elected to measure ~~MSRs~~ amortization method. Under the amortization method, MSRs are amortized in proportion to, and over the ~~period~~ estimated net servicing income.

The Company generally sells, without recourse, conforming, fixed-rate, closed-end, residential mortgages to Fannie Mae. The Company services the mortgages sold and records MSRs. MSRs are included in other assets on the accompanying consolidated balance sheets.

The Company evaluates MSRs for impairment on a quarterly basis. Impairment is determined by stratifying MSRs ~~into~~ groupings based on predominant risk characteristics, such as interest rate and loan type. If, by individual stratum, the carrying amount of the MSRs exceeds fair value, a valuation allowance is established. The valuation allowance is ~~adjusted~~ fair value changes. Changes in the valuation allowance are recognized in earnings as a component of ~~net~~ ~~income~~ ~~income~~.

The following table details the changes in amortized MSRs and the related valuation allowance for the respective periods.

(Dollars in thousands)	Quarter ended September 30,		Nine months ended September	
	2024	2023	30, 2024	2023
MSRs, net:				
Beginning balance	\$ 942	\$ 1,050	\$ 992	\$ 1,151
Additions, net	28	7	54	16
Amortization expense	(51)	(46)	(127)	(156)
Ending balance	\$ 919	\$ 1,011	\$ 919	\$ 1,011
Valuation allowance included in MSRs, net:				
Beginning of period	\$ —	\$ —	\$ —	\$ —
End of period	—	—	—	—
Fair value of amortized MSRs:				
Beginning of period	\$ 2,346	\$ 2,312	\$ 2,382	\$ 2,369
End of period	2,171	2,351	2,171	2,351

NOTE 7: FAIR VALUE

Fair Value Hierarchy

"Fair value" is defined by ASC 820 *Fair Value Measurements and Disclosure* and focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an ~~orderly~~ transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for an asset or liability at the ~~date of measurement~~. The fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1—inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets.

Level 2—inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable for ~~the~~ asset or liability, either directly or indirectly.

Table of Contents

Level 3—inputs to the valuation methodology are unobservable and reflect the Company's own assumptions about inputs market participants would use in pricing the asset or liability.

Level changes in fair value measurements

Transfers between levels of the fair value hierarchy are generally recognized at the end of each reporting period. The Company monitors the valuation techniques utilized for each category of financial assets and liabilities to ascertain transfers between levels have been affected. The nature of the Company's financial assets and liabilities generally is that transfers in and out of any level are expected to be infrequent. For the nine months ended September 30, 2024, there no transfers between levels and no changes in valuation techniques for the Company's financial assets and liabilities.

Assets and liabilities measured at fair value on a recurring basis

Securities available-for-sale

Fair values of securities available for sale were primarily measured using Level 2 inputs. For these securities, the Company pricing data from third party pricing services. These third party pricing services consider observable data that include broker/dealer quotes, market spreads, cash flows, benchmark yields, reported trades for similar securities, consensus prepayment speeds, credit information, and the securities' terms and conditions. On a quarterly basis, management reviews the pricing data received from the third party pricing services for reasonableness given current conditions. As part of its review, management may obtain non-binding third party broker/dealer quotes to validate the fair value measurements. In addition, management will periodically submit pricing information provided by the third party pricing services to another independent valuation firm on a sample basis. This independent valuation firm will price provided by the third party pricing service with its own prices and will review the significant assumptions and valuation methodologies used with management.

The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as September 30, 2024 and December 31, 2023, respectively, by caption, on the accompanying consolidated balance sheet valuation hierarchy (as described above).

(Dollars in thousands)	Amount	Quoted Prices in	Significant	
		Active Markets	Other	Significant
		for	Observable	Unobservable
Identical Assets		(Level 1)	(Level 2)	(Level 3)
September 30, 2024:				
Securities available-for-sale:				
Agency obligations	\$ 54,077	—	54,077	—
Agency MBS	185,854	—	185,854	—
State and political subdivisions	18,354	—	18,354	—
Total securities available -for-sale	258,285	—	258,285	—
Total assets at fair value	\$ 258,285	—	258,285	—
December 31, 2023:				
Securities available-for-sale:				
Agency obligations	\$ 53,879	—	53,879	—
Agency MBS	198,289	—	198,289	—
State and political subdivisions	18,742	—	18,742	—
Total securities available -for-sale	270,910	—	270,910	—
Total assets at fair value	\$ 270,910	—	270,910	—

Assets and liabilities measured at fair value on a nonrecurring basis

Loans held for sale

Table of Contents

Loans held for sale are carried at the lower of cost or fair value. Fair values of loans held for sale are determined ~~quoting~~ based on secondary market prices for similar loans. Loans held for sale are classified within Level 2 of the fair value hierarchy.

Collateral dependent loans

Collateral dependent loans are measured at the fair value of the collateral securing the loan less estimated selling ~~costs~~ ~~losses~~ of real estate collateral is determined based on real estate appraisals which are generally based on recent ~~comparable~~ properties which are then adjusted for property specific factors. Non-real estate collateral is valued ~~based on~~ ~~sources~~, including third party asset valuations and internally determined values based on cost adjusted for depreciation and other judgmentally determined discount factors. Collateral dependent loans are classified within ~~the~~ ~~hierarchy~~ due to the unobservable inputs used in determining their fair value such as collateral values and the ~~underlying~~ financial condition.

Mortgage servicing rights, net

MSRs, net, included in other assets on the accompanying consolidated balance sheets, are carried at the lower of ~~estimated~~ fair value. MSRs do not trade in an active market with readily observable prices. To determine the fair ~~value~~ ~~of~~ the Company engages an independent third party. The independent third party's valuation model calculates ~~present~~ value of estimated future net servicing income using assumptions that market participants would use in ~~estimating~~ servicing income, including estimates of mortgage prepayment speeds, discount rates, default rates, costs to service, escrow account earnings, contractual servicing fee income, ancillary income, and late fees. Periodically, the Company will review broker surveys and other market research to validate significant assumptions used in the model. ~~Significant~~ unobservable inputs include mortgage prepayment speeds or the constant prepayment rate ("CPR") and ~~the~~ weighted average discount rate. Because the valuation of MSRs requires the use of significant unobservable inputs, ~~that~~ ~~Company's~~ MSRs are classified within Level 3 of the valuation hierarchy.

The following table presents the balances of the assets and liabilities measured at fair value on a nonrecurring basis ~~September 30, 2024 and December 31, 2023, respectively, by caption, on the accompanying consolidated balance sheet~~ FASB ASC 820 valuation hierarchy (as described above):

	Carrying Amount (Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2024:						
Loans held for sale	\$ 565	—	—	565	—	—
Loans, net ⁽¹⁾	735	—	—	—	—	735
Other asset ⁽²⁾	919	—	—	—	—	919
Total assets at fair value	\$ 2,219	—	—	565	—	1,654
December 31, 2023:						
Loans, net ⁽¹⁾	\$ 783	—	—	—	—	783
Other asset ⁽²⁾	992	—	—	—	—	992
Total assets at fair value	\$ 1,775	—	—	—	—	1,775

⁽¹⁾Loans considered collateral dependent under ASC 326.

⁽²⁾Represents MSRs, net, carried at lower of cost or estimated fair value.

[Table of Contents](#)

Quantitative Disclosures for Level 3 Fair Value Measurements

At September 30, 2024 and December 31, 2023, the Company had no Level 3 assets measured at fair value on a non-recurring basis at September 30, 2024 and December 31, 2023. Significant unobservable inputs used in the fair value measurements and the range of such inputs with respect to such share presented below.

(Dollars in thousands)	Carrying Amount	Valuation Technique	Significant Unobservable Input	Range of Unobservable Inputs	Weighted Average of Input
September 30, 2024:					
Collateral dependent loans	\$ 735	Appraisal	Appraisal discounts	10.0 - 10.0%	10.0%
Mortgage servicing rights, net	919	Discounted cash flow	Prepayment speed or CPR	7.0 - 11.1	7.6
			Discount rate	10.0 - 12.0	10.0
December 31, 2023:					
Collateral dependent loans	\$ 783	Appraisal	Appraisal discounts	10.0 - 10.0%	10.0%
Mortgage servicing rights, net	992	Discounted cash flow	Prepayment speed or CPR	5.9 - 10.6	6.0
			Discount rate	10.5 - 12.5	10.5

Fair Value of Financial Instruments

ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, where it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow analyses. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be representative of the liquidation value of the Company's financial instruments, but rather are good-faith estimates of the fair value of financial instruments held by the Company. ASC 825 excludes certain financial instruments and all instruments from its disclosure requirements.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Loans, net

Fair values for loans were calculated using discounted cash flows. The discount rates reflected current rates at which loans would be made for the same remaining maturities. Expected future cash flows were projected based on contractual, adjusted for estimated prepayments. The fair value of loans was measured using an exit price notion.

Loans held for sale

Fair values of loans held for sale are determined using quoted secondary market prices for similar loans.

Time Deposits

Fair values for time deposits were estimated using discounted cash flows. The discount rates were based on rates offered for deposits with similar remaining maturities.

Table of Contents

The carrying value, related estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments at September 30, 2024 and December 31, 2023 are presented below. This table excludes financial instruments whose carrying amount approximates fair value. Financial assets for which fair value approximates carrying value included cash and cash equivalents. Financial liabilities for which fair value approximates carrying value included noninterest-bearing demand deposits, interest-bearing demand deposits, and savings deposits. Fair value approximates carrying value in these financial liabilities due to these products having no stated maturity. Additionally, financial liabilities for which fair value approximates carrying value included overnight borrowings such as federal funds purchased sold under agreements to repurchase.

The following table summarizes our fair value estimates:

(Dollars in thousands)	Carrying amount	Estimated fair value	Fair Value Hierarchy				
			Level 1 inputs	Level 2 inputs	Level 3 Inputs		
September 30, 2024:							
Financial Assets:							
Loans, net (1)	\$ 558,823	\$ 531,005	\$ —	\$ —	\$ 531,005		
Loans held for sale	565	580	—	580	—		
Financial Liabilities:							
Time Deposits	\$ 189,451	\$ 188,363	\$ —	\$ 188,363	\$ —		
December 31, 2023:							
Financial Assets:							
Loans, net (1)	\$ 550,431	\$ 526,372	\$ —	\$ —	\$ 526,372		
Financial Liabilities:							
Time Deposits	\$ 198,215	\$ 195,171	\$ —	\$ 195,171	\$ —		

(1) Represents loans, net of allowance for credit losses. The fair value of loans was measured using an exit price notion.

[Table of Contents](#)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Auburn National Bancorporation, Inc. (the "Company") is a bank holding company registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company was incorporated in Delaware in 1990, and in 1994 it succeeded its Alabama predecessor as the bank holding company controlling AuburnBank, an Alabama state member bank with its principal office in Auburn, Alabama (the "Bank"). The Company and its predecessor have controlled the Bank since 1984. As a bank holding company, the Company may diversify into a broader range of financial services and other business activities than currently are permitted to the Bank under applicable laws and regulations. The holding company structure also provides greater financial and operating flexibility than is presently permitted to the Bank.

The Bank has operated continuously since 1907 and currently conducts its business primarily in East Alabama, including Lee County and surrounding areas. The Bank has been a member of the Federal Reserve System since April 1995. The Bank's primary regulators are the Federal Reserve and the Alabama Superintendent of Banks (the "Alabama Superintendent"). The Bank has been a member of the FHLB of Atlanta since 1991. Certain of the statements made in this discussion and analysis and elsewhere, including information incorporated herein by reference to other documents, are "forward-looking statements" as more fully described under "Special Cautionary Notice Regarding Forward-Looking Statements" below.

The following discussion and analysis is intended to provide a better understanding of various factors related to the results of operations and financial condition of the Company and the Bank. This discussion is intended to supplement and highlight information contained in the accompanying unaudited condensed consolidated financial statements and related notes for the quarters and nine months ended September 30, 2024 and 2023, as well as the information contained in our annual report on Form 10-K for the year ended December 31, 2023 and our interim reports on Form 10-Q for the quarters ended March 31, 2024 and June 30, 2024.

Special Cautionary Notice Regarding Forward-Looking Statements

Various of the statements made herein under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Quantitative and Qualitative Disclosures about Market Risk", "Risk Factors" "Description of Property" and elsewhere, are "forward-looking statements" within the meaning and protections of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause the actual results, performance, achievements or financial condition of the Company to be materially different from future results, performance, achievements or financial condition expressed or implied by such forward-looking statements. You should not expect us to update any forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as "may," "will," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "evaluation," "estimate," "continue," "designed", "plan," "point to," "project," "could," "intend," "target" and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- the effects of future economic, business and market conditions and changes, foreign, domestic and locally, including inflation, seasonality, natural disasters or climate change, such as rising sea and water levels, hurricanes and tornados, COVID-19 or other health crises, epidemics or pandemics including supply chain disruptions, inventory volatility, and changes in consumer behaviors;
- the effects of war or other conflicts, acts of terrorism, trade restrictions (including tariffs), sanctions or other events that may affect general economic conditions;

Table of Contents

- governmental monetary and fiscal policies, including the amount and costs of borrowing by the federal government and its agencies, the continuing effects of COVID-19 fiscal and monetary stimuli, and changes in monetary policies in response to inflation in light of the Federal Reserve's target inflation rate of 2% over the longer term and dual mandate goals of maximum employment and stable prices, including changes to increase the Federal Reserve's reinvestment of maturing Treasury securities beginning in June 2024 and mid-September 2024 reduction in the target federal funds rate by 50 basis points to a target range of 4.75 – 5.00%, among other things described more fully in "Effects of Inflation and Changing Price";
- legislative and regulatory changes, including changes in banking, securities and tax laws, regulations and rules and their application by our regulators, including capital and liquidity requirements, and changes in the scope and cost of FDIC insurance;
- changes in accounting pronouncements and interpretations, including the required use, beginning January 1, 2023, of Financial Accounting Standards Board's ("FASB") Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," as well as the updates issued since June 2016 (collectively, FASB ASC Topic 326) on Current Expected Credit Losses ("CECL"), and ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures, which eliminates troubled debt restructurings ("TDRs") and related guidance;
- the failure of assumptions and estimates, including those used in the Company's CECL models to establish our allowance for credit losses and estimate asset impairments, as well as differences in, and changes to, economic, market and credit conditions, including unemployment rates, changes in borrowers' credit risks and payment behaviors from those used in our CECL models and loan portfolio reviews;
- the risks of changes in market interest rates and the shape of the yield curve on customer behaviors; the levels, composition and costs of deposits, loan demand and mortgage loan originations; the values and liquidity of loan collateral, our securities portfolio and interest-sensitive assets and liabilities; and the risks and uncertainty of the amounts realizable on collateral;
- the risks of increases in market interest rates or the continuation of restrictive monetary policies creating unrealized losses on our securities available for sale, which adversely affect our stockholders' equity for financial reporting purposes and our tangible equity;
- changes in borrower liquidity and credit risks, and savings, deposit and payment behaviors;
- changes in the availability and cost of credit and capital in the financial markets, and the types of instruments that may be included as capital for regulatory purposes;
- changes in the prices, values and sales volumes of residential and commercial real estate;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services, including the disruptive effects of financial technology and other competitors who are not subject to the same regulation, including capital, and supervision and examination, as the Company and the Bank and credit unions, which are not subject to federal income taxation;
- the timing and amount of rental income from third parties following the June 2022 opening of our new headquarters;
- the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;
- changes in technology or products that may be more difficult, costly, or less effective than anticipated;
- cyber-attacks and data breaches that may compromise our systems, our vendors' systems or customers' information;

Table of Contents

- the risks that our deferred tax assets ("DTAs") included in "other assets" on our consolidated balance sheets, if any, could be reduced if estimates of future taxable income from our operations and tax planning strategies are less than currently estimated, and sales of our capital stock could trigger a reduction in the amount of net operating loss carry-forwards that we may be able to utilize for income tax purposes;
- the risks that our dividends, share repurchases and discretionary bonuses are limited by regulation to the maintenance of a capital conservation buffer of 2.5% and our future earnings and "eligible retained earnings" over rolling four calendar quarter periods;
- other factors and risks described under "Risk Factors" herein, in our Annual Report on Form 10-K as of and for the year ended December 31, 2023 filed with the United States Securities and Exchange Commission (the "Commission" or "SEC"), and in any of our subsequent reports that we make with the SEC under the Exchange Act.

All written or oral forward-looking statements that we make or are attributable to us are expressly qualified in their entirety by this cautionary notice. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this report, or after the respective dates on which such statements otherwise are made.

Summary of Results of Operations

(Dollars in thousands, except per share)	Quarter ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net interest income (a)	\$ 6,811	\$ 6,380	\$ 20,216	\$ 20,591
Less: tax-equivalent adjustment	21	108	60	322
Net interest income (GAAP)	6,790	6,272	20,156	20,269
Noninterest income	846	865	2,629	2,448
Total revenue	7,636	7,137	22,785	22,717
Provision for credit losses	(127)	105	84	(191)
Noninterest expense	5,500	5,362	16,694	16,791
Income tax expense	531	182	1,170	737
Net earnings	\$ 1,732	\$ 1,488	\$ 4,837	\$ 5,380
Basic and diluted earnings per share	\$ 0.50	\$ 0.43	\$ 1.38	\$ 1.54

(a) Tax-equivalent. See "Table 1 - Explanation of Non-GAAP Financial Measures."

Financial Summary

The Company's net earnings were \$4.8 million for the first nine months of 2024, compared to \$5.4 million for the first nine months of 2023. Basic and diluted earnings per share were \$1.38 per share for the first nine months of 2024, compared to \$1.54 per share for the first nine months of 2023.

Net interest income (tax-equivalent) was \$20.2 million for the first nine months of 2024, a 2% decrease compared to \$20.6 million for the first nine months of 2023. This decrease was primarily due to a smaller balance sheet partially offset by an increase in the Company's net interest margin. The Company's net interest margin (tax-equivalent) was 3.05% for the first nine months of 2024 compared to 2.97% for the first nine months of 2023. This increase was primarily due to a more favorable asset mix and higher yields on interest earning assets, which was partially offset by increased cost of interest-bearing deposits. Average loans for the first nine months of 2024 were \$568.9 million, a 11% increase from the first nine months of 2023. Average total securities for the first nine months of 2024 were \$259.2 million compared to \$398.8 million for the first nine months of 2023. The decrease was primarily the result of the Company's balance sheet repositioning in the fourth quarter of 2024. See "Results of Operations – Average Balance Sheet and Interest Rates" and "Net Interest Income and Margin" below.

At September 30, 2024, the Company's allowance for credit losses was \$6.9 million, or 1.22% of total loans, compared to \$6.9 million, or 1.23% of total loans, at December 31, 2023, and \$6.8 million, or 1.24% of total loans, at September 30, 2023.

Table of Contents

The Company recorded a provision for credit losses during the first nine months of 2024 of \$0.1 million, compared to a negative provision of \$0.2 million during the first nine months of 2023. The provision for credit losses under CECL reflects the Company's evaluation of its credit risk profile and its future economic outlook and forecasts. Our CECL model is largely influenced by economic factors including, most notably, the anticipated unemployment rate. The increase in the provision for credit losses during the first nine months of 2024, as compared to the first nine months of 2023, was related to changes in the composition of, and increases in, loans as well as changes in the economic forecasts used in our CECL model.

Noninterest income was \$2.6 million in the first nine months of 2024, compared to \$2.4 million in the first nine months of 2023. The increase was primarily related to an increase in mortgage lending income and other noninterest income.

Noninterest expense was \$16.7 million in the first nine months of 2024, compared to \$16.8 million for the first nine months of 2023. The decrease was primarily related to decreases in net occupancy and equipment expense and other noninterest expense. These decreases were partially offset by an increase in salaries and benefits expense.

Income tax expense was \$1.2 million for the first nine months of 2024 compared to \$0.7 million for the first nine months of 2023. The Company's effective tax rate for the first nine months of 2024 was 19.48%, compared to 12.05% in the first nine months of 2023. The Company's effective income tax rate is affected principally by tax-exempt earnings from the Company's investments in municipal securities, bank-owned life insurance ("BOLI"), and New Markets Tax Credits ("NMTCs"). The effective tax rate increased primarily due to a decrease in the Company's investment in municipal securities following the balance sheet restructuring in the fourth quarter of 2023, and the adoption of FASB ASU 2023-02 Investments – Equity Method and Joint Ventures (Topic 323) which allows the proportional amortization method for our NMTC investments, on January 1, 2024. With the adoption of this ASU, amortization of NMTCs are now included in income tax expense rather than noninterest expense.

The Company paid cash dividends of \$0.81 per share in the first nine months of 2024 and 2023. At September 30, 2024, the Bank's regulatory capital ratios were well above the minimum amounts required to be "well capitalized" under current regulatory standards with a total risk-based capital ratio of 15.76%, a tier 1 leverage ratio of 10.43% and a common equity tier 1 ("CET1") ratio of 14.75% at September 30, 2024.

For the third quarter of 2024, net earnings were \$1.7 million, or \$0.50 per share, compared to \$1.5 million, or \$0.43 per share, for the third quarter of 2023. Net interest income (tax-equivalent) was \$6.8 million for the third quarter of 2024 compared to \$6.4 million for the third quarter of 2023. The increase was primarily due a more favorable asset mix and higher yields on interest earning assets partially offset by increases in the cost of interest-bearing deposits. The Company's net interest margin (tax-equivalent) was 3.05% in the third quarter of 2024 compared to 2.73% in the third quarter of 2023. The Company recorded a negative provision for credit losses during the third quarter of 2024 of \$0.1 million, compared to a provision of \$0.1 million for the third quarter of 2023. Noninterest income was \$0.8 million for the third quarter of 2024 compared to \$0.9 million for the third quarter of 2023. This decrease was primarily due to a decrease in other noninterest income. Noninterest expense was \$5.5 million in the third quarter of 2024 compared to \$5.4 million for the third quarter of 2023. The increase in noninterest expense was primarily due to an increase in salaries and benefits expense which was partially offset by decreases in net occupancy and equipment expense and FDIC and other regulatory assessments expense. Income tax expense was \$0.5 million for the third quarter of 2024, compared to \$0.2 million for the third quarter of 2023. This increase was due to an increase in the level of earnings before taxes and the Company's effective tax rate, which increased to 23.46% in the third quarter of 2024 from 10.90% in the third quarter of 2023. This increase was related to a decrease in the Company's investment in municipal securities, and the adoption of ASU 2023-02, as described above.

CRITICAL ACCOUNTING POLICIES

The accounting principles we follow and our methods of applying these principles conform with U.S. GAAP and with general practices within the banking industry. There have been no significant changes to our Critical Accounting Estimates as described in our Form 10-K as of and for the year ended December 31, 2023.

[Table of Contents](#)

RESULTS OF OPERATIONS

Average Balance Sheet and Interest Rates

(Dollars in thousands)	Nine months ended September 30,			
	2024		2023	
	Average Balance	Yield/Rate	Average Balance	Yield/Rate
Loans and loans held for sale	\$ 568,939	5.18%	\$ 514,706	4.71%
Securities - taxable	248,923	2.20%	344,136	2.13%
Securities - tax-exempt	10,235	3.71%	54,615	3.75%
Total securities	259,158	2.26%	398,751	2.35%
Federal funds sold	18,014	5.47%	4,372	4.86%
Interest bearing bank deposits	39,530	5.47%	8,118	4.66%
Total interest-earning assets	885,641	4.35%	925,947	3.70%
Deposits:				
NOW	193,428	1.41%	189,586	0.75%
Savings and money market	250,146	0.79%	291,988	0.63%
Time deposits	196,584	3.45%	168,000	1.99%
Total interest-bearing deposits	640,158	1.80%	649,574	1.02%
Short-term borrowings	838	0.48%	3,748	2.43%
Total interest-bearing liabilities	640,996	1.80%	653,322	1.02%
Net interest income and margin (tax-equivalent)	\$ 20,216	3.05%	\$ 20,591	2.97%

Net Interest Income and Margin

Net interest income (tax-equivalent) was \$20.2 million for the first nine months of 2024, a 2% decrease compared to \$20.6 million for the first nine months of 2023. This decrease was primarily due to a smaller balance sheet partially offset by a increase in the Company's net interest margin. The Company's net interest margin (tax-equivalent) was 3.05% in the first nine months of 2024 compared to 2.97% in the first nine months of 2023. This increase was primarily due a more favorable asset mix and higher yields on interest-earning assets, which was partially offset by higher market interest rates, which increased our cost of funds, generally, and changes in our deposit mix to higher cost interest bearing deposits. The cost of interest-bearing liabilities increased to 180 basis points in the first nine months ended months of 2024, compared to 102 basis points in the first nine months ended months of 2023. Average interest-bearing deposits were \$640.2 million during the first nine months of 2024, a 1% decrease compared to \$649.6 million during the first nine months of 2023. As of September 30, 2024, average interest-bearing deposits were 71% of average total deposits compared to 69% on September 30, 2023. Since March 2022, the Federal Reserve increased the target federal funds rate by 525 basis points before announcing a 50 basis points rate reduction on September 18, 2024, its first decrease in rates since its March 2020 COVID rate reduction. At September 30, 2024, the target federal funds rate ranged from 4.75% - 5.00%.

The tax-equivalent yield on total interest-earning assets increased by 65 basis points to 4.35% in the first nine months of 2024 compared to 3.70% in the first nine months of 2023. This increase was primarily due to the Company's balance sheet repositioning strategy in the fourth quarter of 2023, which improved our asset mix, and loan growth combined with higher market interest rates on interest earning assets. Average loans for the first nine months of 2024 were \$568.9 million, an 11% increase from the first nine months of 2023.

The cost of total interest-bearing liabilities increased by 78 basis points to 1.80% in the first nine months of 2024 compared to 1.02% in the first nine months of 2023. Our deposit costs may continue to increase as we compete for deposit funds against other banks, money market mutual funds, Treasury securities and other interest-bearing alternative investments.

The Company continues to deploy various asset liability management strategies to manage its risks from interest rate fluctuations. Deposit and loan pricing remain competitive in our markets. We believe this challenging rate environment will continue throughout 2024. Our ability to compete and manage our deposit costs until our interest-earning assets reprice and we generate new loans with current market interest rates will be important to our net interest margin during the remainder of 2024.

[Table of Contents](#)

Provision for Credit Losses

On January 1, 2023, we adopted ASC 326 and its CECL methodology, which requires us to estimate all expected credit losses over the remaining life of our loans. Accordingly, the provision for credit losses represents a charge to earnings necessary to establish an allowance for credit losses that, in management's evaluation, is adequate to provide coverage for all expected credit losses. The Company recorded a provision for credit losses during the first nine months of 2024 of \$0.1 million, compared to a negative provision for credit losses of \$0.2 million during the first nine months of 2023. Provision expense is affected by organic loan growth in our loan portfolio, our internal assessment of the credit quality of the loan portfolio, our expectations about future economic conditions and net charge-offs. Our CECL model is largely influenced by economic factors including, most notably, the anticipated unemployment rate, which may be affected by monetary policy.

Our allowance for credit losses reflects an amount we believe appropriate, based on our allowance assessment methodology, to adequately cover all expected credit losses as of the date the allowance is determined. At September 30, 2024, the Company's allowance for credit losses was \$6.9 million, or 1.22% of total loans, compared to \$6.9 million, or 1.23% of total loans, at December 31, 2023, and \$6.8 million, or 1.24% of total loans, at September 30, 2023.

Noninterest Income

<i>(Dollars in thousands)</i>	Quarter ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Service charges on deposit accounts	\$ 154	\$ 148	\$ 463	\$ 456
Mortgage lending income	133	110	463	345
Bank-owned life insurance	100	87	301	311
Other	459	520	1,402	1,336
Total noninterest income	\$ 846	\$ 865	\$ 2,629	\$ 2,448

The Company's income from mortgage lending is primarily attributable to the (1) origination and sale of mortgage loans and (2) servicing of mortgage loans. Origination income, net, is comprised of gains or losses from the sale of the mortgage loans originated, origination fees, underwriting fees, and other fees associated with the origination of loans, which are netted against the commission expense associated with these originations. The Company's normal practice is to originate mortgage loans for sale in the secondary market and to either sell or retain the associated MSRs when the loan is sold.

MSRs are recognized based on the fair value of the servicing right on the date the corresponding mortgage loan is sold. Subsequent to the date of transfer, the Company has elected to measure its MSRs under the amortization method. Servicing fee income is reported net of any related amortization expense.

The Company evaluates MSRs for impairment on a quarterly basis. Impairment is determined by grouping MSRs by common predominant characteristics, such as interest rate and loan type. If the aggregate carrying amount of a particular group of MSRs exceeds the group's aggregate fair value, a valuation allowance for that group is established. The valuation allowance is adjusted as the fair value changes. An increase in mortgage interest rates typically results in an increase in the fair value of the MSRs while a decrease in mortgage interest rates typically results in a decrease in the fair value of MSRs.

The following table presents a breakdown of the Company's mortgage lending income.

<i>(Dollars in thousands)</i>	Quarter ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Origination income	\$ 52	\$ 20	\$ 194	\$ 81
Servicing fees, net	81	90	269	264
Total mortgage lending income	\$ 133	\$ 110	\$ 463	\$ 345

The Company's income from mortgage lending typically fluctuates as mortgage interest rates change and is primarily attributable to the origination and sale of mortgage loans. The increase in mortgage lending income was primarily related to the Company increasing the number of mortgage loans held for sale during 2024 relative to the number of mortgage loans held for investment during 2023.

Table of Contents

Income from bank-owned life insurance was \$301 thousand and \$311 thousand for the first nine months of 2024, and 2023 respectively. Excluding a \$52 thousand non-taxable death benefit received during the first quarter of 2023, income from bank-owned life insurance would have been \$259 thousand for the first nine months of 2023.

Other noninterest income was \$1.4 million for the first nine months of 2024, compared to \$1.3 million for the first nine months of 2023. The increase in other noninterest income was primarily due to increased fee income on one-way sell reciprocal deposits sold through the Intrafi network.

Noninterest Expense

<i>(Dollars in thousands)</i>	Quarter ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Salaries and benefits	\$ 3,148	\$ 2,844	\$ 9,359	\$ 8,809
Net occupancy and equipment	614	755	1,980	2,341
Professional fees	291	261	931	898
Other	1,447	1,502	4,424	4,743
Total noninterest expense	\$ 5,500	\$ 5,362	\$ 16,694	\$ 16,791

The increase in salaries and benefits was primarily due to routine annual increases in salaries and wages.

The decrease in net occupancy and equipment expense was primarily due to an increase in leasing income.

The decrease in other noninterest expense was primarily due to the Company's adoption of ASU 2023-02 which allows the proportional amortization method for our NMTC investments, on January 1, 2024. With the adoption of this ASU, amortization of NMTCs are now included in income tax expense. During the first nine months of 2023, other noninterest expense included \$303 thousand related to our equity method investment in NMTCs.

Income Tax Expense

Income tax expense was \$1.2 million during the first nine months of 2024 compared to \$0.7 million during the first nine months of 2023. The Company's effective tax rate for the first nine months of 2024 was 19.48%, compared to 12.05% in the first nine months of 2023. The Company's effective income tax rate is affected principally by tax-exempt earnings from the Company's investments in municipal securities, BOLI, and NMTCs. The effective tax rate increased primarily due to a decrease in the Company's investment in municipal securities following the balance sheet restructuring in the fourth quarter of 2023, and the adoption of FASB ASU 2023-02 Investments – Equity Method and Joint Ventures (Topic 323) which allows the proportional amortization method for our NMTC investments, on January 1, 2024. With the adoption of this ASU, amortization of NMTCs are now included in income tax expense rather than noninterest expense.

BALANCE SHEET ANALYSIS

Securities

Securities available-for-sale were \$258.3 million at September 30, 2024, compared to \$270.9 million at December 31, 2023. This decrease reflects a \$20.7 million decrease in the amortized cost basis of securities available-for-sale and an increase in the fair value of securities available-for-sale of \$8.1 million. The average annualized tax-equivalent yields earned on total securities were 2.26% in the first nine months of 2024 and 2.35% in the first nine months of 2023.

[Table of Contents](#)

Loans

<i>(In thousands)</i>	2024			2023	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Commercial and industrial	\$ 61,510	77,627	78,920	73,374	66,014
Construction and land development	77,956	73,688	58,909	68,329	70,129
Commercial real estate	297,773	297,232	300,484	287,307	281,964
Residential real estate	118,582	119,427	118,240	117,457	117,150
Consumer installment	9,878	10,094	10,967	10,827	10,353
Total loans	\$ 565,699	578,068	567,520	557,294	545,610

Total loans were \$565.7 million at September 30, 2024, a 2% increase compared to \$557.3 million at December 31, 2023. Four loan categories represented the majority of the loan portfolio at September 30, 2024: commercial real estate (53%), residential real estate (21%), construction and land development (14%) and commercial and industrial (11%). Approximately 21% of the Company's commercial real estate loans were classified as owner-occupied at September 30, 2024.

Within the residential real estate portfolio segment, the Company had junior lien mortgages of approximately \$10.1 million, or 2% of total loans, and \$8.7 million, or 2%, of total loans at September 30, 2024 and December 31, 2023, respectively. For residential real estate mortgage loans with a consumer purpose, the Company had no loans that required interest only payments at September 30, 2024 and December 31, 2023. The Company's residential real estate mortgage portfolio does not include any option or hybrid ARM loans, subprime loans, or any material amount of other consumer mortgage products which are generally viewed as high risk.

The average yield earned on loans and loans held for sale was 5.18% in the first nine months of 2024 and 4.71% in the first nine months of 2023.

The specific economic and credit risks associated with our loan portfolio include, but are not limited to, the effects of current economic conditions, including inflation and the continuing increases in market interest rates, remaining COVID-19 pandemic effects including supply chain disruptions, reduced commercial office occupancy levels, housing supply shortages and inflation on our borrowers' cash flows, real estate market sales volumes and liquidity, valuations used in making loans and evaluating collateral, reduced credit availability, (especially for commercial real estate) generally and higher costs of financing properties, which reduce the transaction and dollar volumes of commercial real estate property sales. Other risks we face include, among other things, real estate industry concentrations, competitive pressures from a wide range of other lenders, deterioration in certain credits, interest rate fluctuations, reduced collateral values or non-existent collateral, title defects, inaccurate appraisals, financial deterioration of borrowers, fraud, and any violation of applicable laws and regulations. Various projects financed earlier that were based on lower interest rate assumptions than currently in effect may not be as profitable or successful at the higher interest rates currently in effect and currently expected in the future.

The Company attempts to reduce these economic and credit risks through its loan-to-value guidelines for collateralized loans, investigating the creditworthiness of borrowers and monitoring borrowers' financial position. Also, we have established and periodically review, lending policies and procedures. Banking regulations limit a bank's credit exposure by prohibiting unsecured loan relationships that exceed 10% of its capital; or 20% of capital, if loans in excess of 10% of capital are fully secured. Under these regulations, we are prohibited from having secured loan relationships in excess of approximately \$22.6 million. Furthermore, we have an internal limit for aggregate credit exposure (loans outstanding plus unfunded commitments) to a single borrower of \$20.3 million. Our loan policy requires that the Loan Committee of the Board of Directors approve any loan relationships that exceed this internal limit. At September 30, 2024, the Bank had one loan relationship exceeding our internal limit.

Table of Contents

We periodically analyze our commercial and industrial and commercial real estate loan portfolios to determine if a concentration of credit risk exists in any one or more industries. We use classification systems broadly accepted by the financial services industry in order to categorize our commercial borrowers. Loans to borrowers in each of the following classes exceeded 25% of the Bank's total risk-based capital at September 30, 2024 and December 31, 2023.

<i>(Dollars in thousands)</i>	September 30, 2024	December 31, 2023
Lessors of 1-4 family residential properties	\$ 59,317	\$ 56,912
Multi-family residential properties	43,789	45,841
Hotel/motel	37,913	39,131
Shopping centers/strip malls	33,506	27,128
Office Buildings	30,505	30,871

Allowance for Credit Losses

On January 1, 2023, we adopted ASC 326, which introduced the current expected loss ("CECL") methodology, which requires us to estimate all expected credit losses over the remaining life of our loan portfolio. Accordingly, beginning in 2023, the allowance for credit losses represents an amount that, in management's evaluation, is adequate to provide coverage for all expected future credit losses on outstanding loans. Our allowance for credit losses was approximately \$6.9 million at both September 30, 2024 and December 31, 2023, which our management believed to be adequate at each of the respective dates. Our allowance for credit losses as a percentage of total loans was 1.22% at September 30, 2024, compared to 1.23% at December 31, 2023.

Our CECL models rely largely on projections of macroeconomic conditions to estimate future credit losses. Macroeconomic factors used in the model include the Alabama unemployment rate, the Alabama home price index, the national commercial real estate price index and the Alabama gross state product. Projections of these macroeconomic factors, obtained from an independent third party, are utilized to predict quarterly rates of default.

Under the CECL methodology the allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics, and for loans that do not share similar risk characteristics with the collectively evaluated pools, evaluations are performed on an individual basis. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses are reverted to long term historical averages. At September 30, 2024, reasonable and supportable periods of four quarters were utilized followed by an eight quarter straight line reversion period to long term averages.

A summary of the changes in the allowance for credit losses and certain asset quality ratios for the third quarter of 2024 and the previous four quarters is presented below.

<i>(Dollars in thousands)</i>	2024			2023	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Balance at beginning of period	\$ 7,142	7,215	6,863	6,778	6,634
Charge-offs:					
Commercial and industrial	—	(9)	—	(164)	—
Residential real estate	(54)	—	—	—	—
Consumer installment	(40)	(19)	(24)	(20)	(18)
Total charge-offs	(94)	(28)	(24)	(184)	(18)
Recoveries	34	19	91	11	4
Net recoveries (charge-offs)	(60)	(9)	67	(173)	(14)
Provision for (reversal of) credit losses	(206)	(64)	285	258	158
Ending balance	\$ 6,876	7,142	7,215	6,863	6,778
as a % of loans	1.22 %	1.24	1.27	1.23	1.24
as a % of nonperforming loans	887 %	900	822	753	559
Net (recoveries) charge-offs as % of average loans (a)	0.04 %	0.01	(0.05)	0.13	0.01

(a) Net (recoveries) charge-offs are annualized.

[Table of Contents](#)

The allowance for credit losses by loan category for the third quarter of 2024 and the previous four quarters is presented below.

(Dollars in thousands)	2024					2023				
	Third Quarter Amount	Second Quarter Amount	First Quarter Amount	Fourth Quarter Amount	Third Quarter Amount	Third Quarter %*	Second Quarter %*	First Quarter %*	Fourth Quarter %*	Third Quarter %*
Commercial and industrial	\$ 1,160	10.9	\$ 1,366	13.4	\$ 1,415	13.9	\$ 1,288	13.2	\$ 1,215	12.1
Construction and land development	985	13.8	\$ 942	12.7	\$ 840	10.4	\$ 960	12.3	\$ 1,073	12.9
Commercial real estate	3,989	52.6	\$ 4,091	51.5	\$ 4,202	53.0	\$ 3,921	51.5	\$ 3,803	51.6
Residential real estate	595	21.0	\$ 603	20.7	\$ 613	20.8	\$ 546	21.1	\$ 551	21.5
Consumer installment	147	1.7	\$ 140	1.7	\$ 145	1.9	\$ 148	1.9	\$ 136	1.9
Total allowance for credit losses	\$ 6,876		\$ 7,142		\$ 7,215		\$ 6,863		\$ 6,778	

* Loan balance in each category expressed as a percentage of total loans.

Nonperforming Assets

At September 30, 2024 and December 31, 2023, the Company had \$0.8 million and \$0.9 million, respectively, in nonperforming assets.

The table below provides information concerning total nonperforming assets and certain asset quality ratios for the third quarter of 2024 and the previous four quarters.

(Dollars in thousands)	2024			2023	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Nonperforming assets:					
Nonaccrual loans	\$ 775	794	878	911	1,213
Total nonperforming assets	\$ 775	794	878	911	1,213
as a % of loans and other real estate owned	0.14 %	0.14	0.15	0.16	0.22
as a % of total assets	0.08 %	0.08	0.09	0.09	0.12
Nonperforming loans as a % of total loans	0.14 %	0.14	0.15	0.16	0.22

The table below provides information concerning the composition of nonaccrual loans for the third quarter of 2024 and the previous four quarters.

(In thousands)	2024			2023	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Nonaccrual loans:					
Commercial and industrial	\$ —	—	—	—	162
Commercial real estate	735	753	765	783	801
Residential real estate	40	41	97	128	250
Consumer installment	—	—	16	—	—
Total nonaccrual loans	\$ 775	794	878	911	1,213

The Company discontinues the accrual of interest income when (1) there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or (2) the principal or interest is 90 days or more past due, unless the loan is both well-secured and in the process of collection.

The Company had no loans 90 days or more past due and still accruing at September 30, 2024 and December 31, 2023, respectively.

The Company had no OREO at September 30, 2024 or December 31, 2023.

[Table of Contents](#)

Deposits

<i>(In thousands)</i>	2024	2023
Noninterest bearing demand	\$ 270,244	270,723
NOW	193,751	190,724
Money market	161,789	148,040
Savings	86,489	88,541
Certificates of deposit under \$250,000	105,634	100,572
Certificates of deposit and other time deposits of \$250,000 or more	83,817	97,643
Total deposits	\$ 901,724	896,243

Total deposits were \$901.7 million at September 30, 2024, compared to \$896.2 million at December 31, 2023. At September 30, 2024 the Company had \$37.8 million reciprocal deposits sold, compared to \$59.0 million at December 31, 2023. The Company had no brokered deposits at September 30, 2024 compared to \$46.6 million outstanding at September 30, 2023, and none at December 31, 2023. Noninterest-bearing deposits were \$270.2 million, or 30% of total deposits, at September 30, 2024, compared to \$270.7 million, or 30% of total deposits at December 31, 2023.

The average rate paid on total interest-bearing deposits was 1.80% in the first nine months of 2024, compared to 1.02% in first nine months of 2023.

At September 30, 2024, estimated uninsured deposits totaled \$355.1 million, or 39% of total deposits, compared to \$356.3 million, or 40% of total deposits at December 31, 2023. During 2023, the Bank began participating in the Certificates of Deposit Account Registry Service (the "CDARS") and the Insured Cash Sweep product ("ICS"), which provide for reciprocal ("two-way") transactions among banks facilitated by IntraFi for the purpose of improving the FDIC insurance coverage for our depositors. The total of reciprocal deposits at September 30, 2024 was \$16.3 million, compared to none at December 31, 2023. Uninsured amounts are estimated based on the portion of account balances in excess of FDIC insurance limits. The Bank's uninsured deposits at September 30, 2024 and December 31, 2023 include approximately \$214.9 million and \$206.2 million, respectively, of deposits of state, county and local governments that are collateralized by securities having an equal fair value to such deposits.

The estimated uninsured time deposits by maturity as of September 30, 2024 is presented below.

<i>(Dollars in thousands)</i>	September 30, 2024
Maturity of:	
3 months or less	\$ 36,447
Over 3 months through 6 months	8,261
Over 6 months through 12 months	9,012
Over 12 months	2,347
Total estimated uninsured time deposits	\$ 56,067

The FDIC issued a special assessment of 3.36 basis points for a projected eight quarters on large banks with more than \$5 billion of uninsured deposits to pay for the federal government's systemic risk determination to insure all depositors in connection with the March 2023 failures of Silicon Valley Bank and Signature Bank. These special assessments do not apply to the Bank.

[Table of Contents](#)

Other Borrowings and Available Credit

The Company had no long-term debt at September 30, 2024 and December 31, 2023. The Bank utilizes short and long-term non-deposit borrowings from time to time. Short-term borrowings generally consist of federal funds purchased and securities sold under agreements to repurchase with an original maturity of one year or less. The Bank had available federal funds lines totaling \$65.2 million with no federal funds borrowings outstanding at September 30, 2024, and December 31, 2023, respectively. The Company had no securities sold under agreements to repurchase, which were entered into on behalf of certain customers at September 30, 2024 compared to \$1.5 million at December 31, 2023. The Bank is eligible to borrow from the FRB's discount window, but had no such borrowings at September 30, 2024 and December 31, 2023. The bank never borrowed from the Federal Reserve's Bank Term Facility Program ("BTFP"), which ceased making new loans on March 11, 2024.

The Bank is a member of the FHLB of Atlanta and has borrowed, and may in the future borrow from time to time under the FHLB of Atlanta's advance program to obtain funding for its growth. FHLB advances include both fixed and variable rates and are taken out with varying maturities, and are generally secured by eligible assets. The Bank had no borrowings under FHLB of Atlanta's advance program at September 30, 2024 and December 31, 2023, respectively. At those dates, the Bank had \$307.7 million and \$309.1 million, respectively, of available lines of credit at the FHLB of Atlanta. Advances include both fixed and variable interest rates and varying maturities may be used. The Bank also has access to the FRB discount window.

The average rate paid on the Bank's short-term borrowings was 0.48% in the first nine months of 2024 compared to 2.43% in the first nine months of 2023. The Bank had average short term borrowings of \$0.8 million in the first nine months of 2024, a 78% decrease compared to \$3.7 million during the first nine months of 2023.

CAPITAL ADEQUACY

The Company's consolidated stockholders' equity was \$84.3 million and \$76.5 million as of September 30, 2024 and December 31, 2023, respectively. The increase from December 31, 2023 was primarily driven by net earnings of \$4.8 million and other comprehensive income due to the change in unrealized gains/losses on securities available-for-sale, net of tax of \$6.1 million, partially offset by cash dividends of \$2.8 million, and the cumulative effect of adopting the new NMTC accounting standard of \$0.3 million. Total unrealized losses, net of tax, on available-for-sale securities decreased from \$29.0 million on December 31, 2023 to \$22.9 million September 30, 2024. These unrealized losses do not affect the Bank's capital for regulatory capital purposes.

The Company paid cash dividends of \$0.81 per share for both the first nine months of 2024 and first nine months of 2023. On January 1, 2015, the Company and Bank became subject to the rules of the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules included the implementation of a capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. The capital conservation buffer was subject to a three-year phase-in period that began on January 1, 2016 and was fully phased-in on January 1, 2019 at 2.5%. A banking organization with a capital conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers.

On August 26, 2020, the Federal Reserve and the other federal banking regulators adopted a final rule that amended the capital conservation buffer. The new rule revises the definition of "eligible retained income" for purposes of the maximum payout ratio to allow banking organizations to more freely use their capital buffers to promote lending and other financial intermediation activities, by making the limitations on capital distributions more gradual. The eligible retained income is now the greater of (i) net income for the four preceding quarters, net of distributions and associated tax effects not reflected in net income; and (ii) the average of all net income over the preceding four quarters. This rule only affects the capital buffers, and banking organizations were encouraged to make prudent capital distribution decisions.

Table of Contents

The Federal Reserve has treated us as a "small bank holding company" under the Federal Reserve's Small Bank Holding Company Policy. Accordingly, our capital adequacy is evaluated at the Bank level, and not for the Company and its consolidated subsidiaries. The Bank's tier 1 leverage ratio was 10.43%, CET1 risk-based capital ratio was 14.75%, tier 1 risk-based capital ratio was 14.75%, and total risk-based capital ratio was 15.76% at September 30, 2024. These ratios exceed the minimum regulatory capital percentages of 5.0% for tier 1 leverage ratio, 6.5% for CET1 risk-based capital ratio, 8.0% for tier 1 risk-based capital ratio, and 10.0% for total risk-based capital ratio to be considered "well capitalized." The Bank's capital conservation buffer was 7.76% at September 30, 2024 exceeded the fully phased -in capital conservation buffer, and such buffer did not limit capital distributions, share repurchases or discretionary bonuses to the extent of available earnings.

On July 27, 2023, the Federal Reserve, the Comptroller of the Currency and the FDIC issued a joint notice of proposed rulemaking to implement the Basel III endgame components. The proposal which is subject to public comment and change only applies to banks and holding companies with \$100 billion or more of assets. The proposal includes provisions dealing with:

- Credit risk, which arises from the risk that an obligor fails to perform on an obligation;
- Market risk, which results from changes in the value of trading positions;
- Operational risk, which is the risk of losses resulting from inadequate or failed internal process, people, and systems, or from external events; and
- Credit valuation adjustment risk, which results from the risk of losses on certain derivative contracts.

The Basel III endgame regulatory proposals are not applicable to the Company or the Bank. The Federal Reserve has indicated that it is revising and expects to re-propose these rules applicable to larger organizations than the Company.

MARKET AND LIQUIDITY RISK MANAGEMENT

Management's objective is to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies. The Bank's Asset Liability Management Committee ("ALCO") is charged with the responsibility of monitoring these policies, which are designed to ensure an acceptable asset/liability composition. Two critical areas of focus for ALCO are interest rate risk and liquidity risk management.

Interest Rate Risk Management

In the normal course of business, the Company is exposed to market risk arising from fluctuations in interest rates. ALCO measures and evaluates interest rate risk so that the Bank can meet customer demands for various types of loans and deposits. Measurements used to help manage interest rate sensitivity include an earnings simulation model and an economic value of equity ("EVE") model.

Earnings simulation Management believes that interest rate risk is best estimated by our earnings simulation modeling. Forecasted levels of earning assets, interest-bearing liabilities, and off-balance sheet financial instruments are combined with ALCO forecasts of market interest rates for the next 12 months and other factors in order to produce various earnings simulations and estimates. To help limit interest rate risk, we have guidelines for earnings at risk which seek to limit the variance of net interest income from gradual changes in interest rates. For changes up or down in rates from management's flat interest rate forecast over the next 12 months, policy limits for net interest income variances are as follows:

- +/- 20% for a gradual change of 400 basis points
- +/- 15% for a gradual change of 300 basis points
- +/- 10% for a gradual change of 200 basis points
- +/- 5% for a gradual change of 100 basis points

While a gradual change in interest rates was used in the above analysis to provide an estimate of exposure under these scenarios, our modeling under both a gradual and instantaneous change in interest rates indicates our balance sheet is liability sensitive over the forecast period of 12 months.

At September 30, 2024, our earnings simulation model indicated that we were in compliance with the policy guidelines noted above.

[Table of Contents](#)

Economic Value of Equity EVE measures the extent that the estimated economic values of our assets, liabilities, and off-balance sheet items will change as a result of interest rate changes. Economic values are estimated by discounting expected cash flows from assets, liabilities, and off-balance sheet items, which establishes a base case EVE. In contrast with our earnings simulation model, which evaluates interest rate risk over a 12-month timeframe, EVE uses a terminal horizon which allows for the re-pricing of all assets, liabilities, and off-balance sheet items. Further, EVE is measured using values as of a point in time and does not reflect any actions that ALCO might take in responding to or anticipating changes in interest rates, or market and competitive conditions. To help limit interest rate risk, we have stated policy guidelines for an instantaneous basis point change in interest rates, such that our EVE should not decrease from our base case by more than the following:

- 35% for an instantaneous change of +/- 400 basis points
- 30% for an instantaneous change of +/- 300 basis points
- 25% for an instantaneous change of +/- 200 basis points
- 15% for an instantaneous change of +/- 100 basis points

At September 30, 2024, our EVE model indicated that we were in compliance with our policy guidelines.

Each of the above analyses may not, on its own, be an accurate indicator of how our net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates, and other economic and market factors, including market perceptions. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types of assets and liabilities may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as "interest rate caps and floors") which limit changes in interest rates. Prepayments and early withdrawal levels also could deviate significantly from those assumed in calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates or economic stress, which may differ across industries and economic sectors. ALCO reviews each of the above interest rate sensitivity analyses along with several different interest rate scenarios in seeking satisfactory, consistent levels of profitability within the framework of the Company's established liquidity, loan, investment, borrowing, and capital policies.

The Company may also use derivative financial instruments to improve the balance between interest-sensitive assets and interest-sensitive liabilities, and as a tool to manage interest rate sensitivity while continuing to meet the credit and deposit needs of our customers. From time to time, the Company also may enter into back-to-back interest rate swaps to facilitate customer transactions and meet their financing needs. These interest rate swaps qualify as derivatives, but are not designated as hedging instruments. At September 30, 2024 and December 31, 2023, the Company had no derivative contracts designated as part of a hedging relationship to assist in managing its interest rate sensitivity.

Liquidity Risk Management

Liquidity is the Company's ability to convert assets into cash equivalents in order to meet daily cash flow requirements, primarily for deposit withdrawals, loan demand and maturing obligations. The Company seeks to manage its liquidity to manage or reduce its costs of funds by maintaining liquidity believed adequate to meet its anticipated funding needs, while balancing against excessive liquidity that likely would reduce earnings due to the cost of foregoing alternative higher-yielding assets.

Liquidity is managed at two levels. The first is the liquidity of the Company. The second is the liquidity of the Bank. The management of liquidity at both levels is essential, because the Company and the Bank are separate and distinct legal entities with different funding needs and sources, and each are subject to regulatory guidelines and requirements. The Company depends upon dividends from the Bank for liquidity to pay its operating expenses, debt obligations and dividends, and Federal Reserve Regulation W restricts Company borrowings from, and other transactions with, the Bank. The Bank's payment of dividends depends on its earnings, liquidity, capital and the absence of regulatory restrictions on such dividends.

The primary source of funding and liquidity for the Company has been dividends received from the Bank. If needed, the Company could also borrow money, or issue common stock or other securities. Primary uses of funds by the Company include payment of Company expenses, dividends paid to stockholders and Company stock repurchases.

Table of Contents

Primary sources of funding for the Bank include customer deposits, other borrowings, interest payments on earning assets, repayment and maturity of securities and loans, sales of securities, and the sale of loans, particularly residential mortgage loans. The Bank has access to federal funds lines from various banks and borrowings from the Federal Reserve discount window. In addition to these sources, the Bank is eligible to participate in the FHLB of Atlanta's advance program to obtain funding for growth and liquidity. Advances include both fixed and variable terms and may be taken out with varying maturities. At September 30, 2024, the Bank had no FHLB of Atlanta advances outstanding and available credit from the FHLB of \$307.7 million. At September 30, 2024, the Bank also had \$65.2 million of available federal funds lines with no borrowings outstanding. Primary uses of funds include repayment of maturing obligations and growing the loan portfolio. The Company also has access to the FRB discount window.

Management believes that the Company and the Bank have adequate sources of liquidity to meet all their respective known contractual obligations and unfunded commitments, including loan commitments and reasonably expected borrower, depositor, and creditor requirements over the next twelve months.

Off-Balance Sheet Arrangements, Commitments, Contingencies and Contractual Obligations

At September 30, 2024, the Bank had outstanding standby letters of credit of \$0.6 million and unfunded loan commitments outstanding of \$77.6 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed, to fund these outstanding commitments, the Bank could use its cash and cash equivalents, deposits with other banks, liquidate federal funds sold or a portion of our securities available-for-sale, or draw on its available credit facilities or raise deposits.

Mortgage lending activities

We generally sell residential mortgage loans in the secondary market to Fannie Mae while retaining the servicing of these loans. The sale agreements for these residential mortgage loans with Fannie Mae and other investors include various customary representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although the representations and warranties vary among investors, they typically cover ownership of the loan, validity of the lien securing the loan, the absence of delinquent taxes or liens against the property securing the loan, compliance with loan criteria set forth in the applicable agreement, compliance with applicable federal, state, and local laws, among other matters.

As of September 30, 2024, the aggregate unpaid principal balance of residential mortgage loans, which we have originated and sold, but retained the servicing rights, was \$207.5 million. Although these loans are generally sold on a non-recourse basis, we may be obligated to repurchase residential mortgage loans or reimburse investors for losses incurred (make whole requests) if a loan review reveals a potential breach of seller representations and warranties. Upon receipt of a repurchase or make whole request, we work with investors to arrive at a mutually agreeable resolution. Repurchase and make whole requests are typically reviewed on an individual loan by loan basis to validate the claims made by the investor and to determine if a contractually required repurchase or make whole event has occurred. We seek to reduce and manage the risks of potential repurchases, make whole requests, or other claims by mortgage loan investors through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor and secondary market standards.

The Company was not required to repurchase any loans during the first nine months of 2024 as a result of representation and warranty provisions contained in the Company's sale agreements with Fannie Mae, and had no pending repurchase or make-whole requests at September 30, 2024.

We service all residential mortgage loans originated and sold by us to Fannie Mae. As servicer, our primary duties are to: (1) collect payments due from borrowers; (2) advance certain delinquent payments of principal and interest; (3) maintain and administer any hazard, title, or primary mortgage insurance policies relating to the mortgage loans; (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments; and (5) foreclose on defaulted mortgage loans or take other actions to mitigate the potential losses to investors consistent with the agreements governing our rights and duties as servicer.

The agreements under which we act as servicer generally specifies standards of responsibility for actions taken by us in such capacity and provides protection against expenses and liabilities incurred by us when acting in compliance with the respective servicing agreements. However, if we commit a material breach of our obligations as servicer, we may be subject to termination if the breach is not cured within a specified period following notice. The standards governing servicing and the possible remedies for violations of such standards are determined by our agreements with Fannie Mae and Fannie Mae's mortgage servicing guides. Remedies could include repurchase of an affected loan.

Table of Contents

Although repurchase and make whole requests related to representation and warranty provisions and servicing activities have been limited to date, it is possible that requests to repurchase mortgage loans or reimburse investors for losses incurred (make whole requests) may increase in frequency if investors more aggressively pursue all means of recovering losses on their purchased loans. As of September 30, 2024, we do not believe that this exposure is material due to the historical level of repurchase requests and loss trends, in addition to the fact that 99% of our residential mortgage loans serviced for Fannie Mae were current as of such date. We maintain ongoing communications with our investors and will continue to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in our investor portfolios.

The Bank sells mortgage loans to Fannie Mae and services these on an actual/actual basis. As a result, the Bank is not obligated to make any advances to Fannie Mae on principal and interest on such mortgage loans where the borrower is entitled to forbearance.

Effects of Inflation and Changing Prices

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with GAAP and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation.

Inflation can increase our noninterest expenses. It also can affect our customers' behaviors, the mix of deposits between interest and noninterest bearing, and the levels of interest rates we have to pay on our deposits and other borrowings, and the interest rates we earn on our earning assets. The difference between our interest expense and interest income is also affected by the shape of the yield curve and the speeds at which our assets and liabilities, respectively, reprice in response to interest rate changes. Although inflation decreased in the most recent quarter, the yield curve continued to be inverted through September 30, 2024, which means shorter term interest rates are higher than longer term interest rates. This results in a lower spread between our costs of funds and our interest income. In addition, net interest income could be affected by asymmetrical changes in the different interest rate indexes, given that not all of our assets or liabilities are priced with the same index. Higher market interest rates and reductions in the securities held by the Federal Reserve to reduce inflation generally reduce economic activity and may reduce loan demand and growth, and may adversely affect unemployment rates. Inflation and related changes in market interest rates, as the Federal Reserve maintains interest rates to meet its longer term inflation goal of 2%, also can adversely affect the values and liquidity of our loans and securities, the value of collateral securing loans to our borrowers, and the success of our borrowers and such borrowers' available cash to pay interest on and principal of our loans to them.

Beginning in March 2022, the Federal Reserve increased its target federal funds range from 0 – 0.25% to 4.25 – 4.50% to fight inflation. The target federal funds rate was increased another 25 basis points on each of January 31, March 7, May 3 and July 26, 2023 to 5.25 – 5.50%. The Federal Reserve has indicated it will maintain higher target rates and restrictive monetary policy to meet its goals of (i) 2% target inflation rate over the longer term and (ii) maximum employment goals. The Federal Reserve's Open Market Committee ("FOMC") reaffirmed its commitment in May 2024 to the 2% inflation objective and announced that it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving substantially toward 2%." Further, beginning in June 2024, the FOMC relaxed its monetary policy by slowing its monthly reduction of Treasury securities from \$60 billion to \$25 billion, while maintaining the \$35 monthly reduction of agency debt and agency mortgage -backed securities at \$35 billion.

On September 18, 2024, in light of inflation moderating, the FOMC reduced its target federal funds rate range by 50 basis points to 4.75% to 5.00%. While the FOMC reaffirmed its target inflation rate of 2% over the longer run, it indicated it was "recalibrating" its policy based on decreasing inflation rates and the risks of increasing unemployment, but would act on incoming data, the evolving outlook and the balance of the risks of inflation and unemployment levels. In the future, the Federal Reserve could further decrease target interest rates, or could increase such target rates, depending on the data and its outlook.

Table of Contents

Our deposit costs increased as the Federal Reserve increased its target federal funds rate to fight inflation, market interest rates increased, and as customers moved to interest bearing deposits to earn interest on their funds, and at higher interest rates. Monetary policy efforts to control inflation may also affect unemployment which is an important component in our CECL model used to estimate our allowance for credit losses. As inflation and market interest rates and expectations regarding these declined in the three months ended September 30, 2024, the values of our securities investments held for sale increased, which increased our stockholders' equity.

See "Item 1A. Risk Factors" in this Report for additional information about inflation, interest rates and related risks.

CURRENT ACCOUNTING DEVELOPMENTS

The following ASU has been issued by the FASB but is not yet effective.

- ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax disclosures*

ASU 2023-09 seeks to enhance the transparency and decision usefulness of income tax disclosures. For public business entities, the new standard is effective for annual periods beginning after December 15, 2024. The Company does not expect the new standard to have a material impact on the Company's consolidated financial statements.

[Table of Contents](#)

Table 1 – Explanation of Non-GAAP Financial Measures

In addition to results presented in accordance with U.S. generally accepted accounting principles (GAAP), this quarterly report on Form 10-Q includes certain designated net interest income amounts presented on a tax-equivalent basis, a non-GAAP financial measure, including the presentation and calculation of the efficiency ratio.

The Company believes the presentation of net interest income on a tax-equivalent basis provides comparability of net interest income from both taxable and tax-exempt sources and facilitates comparability within the industry. Although the Company believes these non-GAAP financial measures enhance investors' understanding of its business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP. The reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measures are presented below.

<i>(in thousands)</i>	2024			2023	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Net interest income (GAAP)	\$ 6,790	6,709	6,657	6,059	6,272
Tax-equivalent adjustment	21	19	20	95	108
Net interest income (Tax-equivalent)\$	6,811	6,728	6,677	6,154	6,380

<i>(In thousands)</i>	Nine months ended September 30,	
	2024	2023
Net interest income (GAAP)	\$ 20,156	20,269
Tax-equivalent adjustment	60	322
Net interest income (Tax-equivalent)	\$ 20,216	20,591

[Table of Contents](#)

Table 2 - Selected Quarterly Financial Data

<i>(Dollars in thousands, except per share)</i>	2024			2023	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Results of Operations					
Net interest income (a)	\$ 6,811	6,728	6,677	6,154	6,380
Less: tax-equivalent adjustment	21	19	20	95	108
Net interest income (GAAP)	6,790	6,709	6,657	6,059	6,272
Noninterest income	846	896	887	(5,429)	865
Total revenue	7,636	7,605	7,544	630	7,137
Provision for credit losses	(127)	(123)	334	326	105
Noninterest expense	5,500	5,519	5,675	5,803	5,362
Income tax expense	531	475	164	(1,514)	182
Net earnings	\$ 1,732	1,734	1,371	(3,985)	1,488
Per share data:					
Basic and diluted net earnings	\$ 0.50	0.50	0.39	(1.14)	0.43
Cash dividends declared	0.27	0.27	0.27	0.27	0.27
Weighted average shares outstanding:					
Basic and diluted	3,493,699	3,493,699	3,493,663	3,493,614	3,496,411
Shares outstanding, at period end	3,493,699	3,493,699	3,493,699	3,493,614	3,493,614
Book value	\$ 24.14	21.53	21.32	21.90	17.59
Common stock price:					
High	\$ 24.35	19.25	21.55	21.99	22.80
Low	17.50	16.63	18.82	19.72	20.85
Period end:	22.90	18.29	19.27	21.28	21.50
To earnings ratio (b)	91.60x	101.61	83.78	53.20	7.65
To book value	95%	85	90	97	122
Performance ratios:					
Annualized return on average equity	9.10%	9.63	7.13	(26.40)	8.59
Annualized return on average assets	0.71%	0.71	0.56	(1.56)	0.58
Dividend payout ratio	54.00%	54.00	69.23	(23.68)	62.79
Asset Quality:					
Allowance for credit losses as a % of:					
Loans	1.22%	1.24	1.27	1.23	1.24
Nonperforming loans	887%	900	822	753	559
Nonperforming assets as a % of:					
Loans and other real estate owned	0.14%	0.14	0.15	0.16	0.22
Total assets	0.08%	0.08	0.09	0.09	0.12
Nonperforming loans as a % of total loans	0.14%	0.14	0.15	0.16	0.22
Annualized net charge-offs (recoveries) as % of average loans	0.04%	0.01	(0.05)	0.13	0.01
Capital Adequacy: (c)					
CET 1 risk-based capital ratio	14.75%	14.47	14.62	14.52	15.01
Tier 1 risk-based capital ratio	14.75%	14.47	14.62	14.52	15.01
Total risk-based capital ratio	15.70%	15.49	15.69	15.52	15.98
Tier 1 leverage ratio	10.43%	10.39	10.34	9.72	10.26
Other financial data:					
Net interest margin (a)	3.05%	3.06	3.04	2.65	2.73
Effective income tax rate	23.40%	21.50	10.68	(27.53)	10.90
Efficiency ratio (d)	71.83%	72.39	75.03	800.41	74.01
Selected average balances:					
Securities	\$ 251,723	258,228	267,606	354,065	390,772
Loans, net of unearned income	571,651	573,443	560,757	550,938	529,382
Total assets	982,656	978,107	976,930	1,020,476	1,020,980
Total deposits	904,860	900,673	897,051	953,674	942,533
Total stockholders' equity	76,113	72,059	76,948	60,372	69,269
Selected period end balances:					
Securities	\$ 258,285	254,359	260,770	270,910	373,286
Loans, net of unearned income	565,699	578,068	567,520	557,294	545,610
Allowance for credit losses	6,876	7,142	7,215	6,863	6,778
Total assets	990,143	1,025,054	979,039	975,255	1,030,724
Total deposits	901,724	946,405	899,673	896,243	964,602
Total stockholders' equity	84,336	75,209	74,489	76,507	61,451

(a) Tax-equivalent. See "Table 1 - Explanation of Non-GAAP Financial Measures."

(b) Calculated by dividing period end share price by earnings per share for the previous four quarters.

(c) Regulatory capital ratios presented are for the Company's wholly-owned subsidiary, AuburnBank.

(d) Efficiency ratio is the result of noninterest expense divided by the sum of noninterest income and tax-equivalent net interest income. See Table 1 - Explanation of Non-GAAP Measures.

[Table of Contents](#)

Table 3 - Selected Financial Data

	Nine months ended September 30,	
	2024	2023
<i>(Dollars in thousands, except per share)</i>		
Results of Operations		
Net interest income (a)	\$ 20,216	20,591
Less: tax-equivalent adjustment	60	322
Net interest income (GAAP)	20,156	20,269
Noninterest income	2,629	2,448
Total revenue	22,785	22,717
Provision for (reversal of) credit losses	84	(191)
Noninterest expense	16,694	16,791
Income tax expense	1,170	737
Net earnings	\$ 4,837	5,380
Per share data:		
Basic and diluted net earnings	\$ 1.38	1.54
Cash dividends declared	0.81	0.81
Weighted average shares outstanding:		
Basic and diluted	3,493,687	3,499,518
Shares outstanding, at period end	3,493,699	3,493,614
Book value	\$ 24.14	17.59
Common stock price:		
High	\$ 24.35	24.50
Low	16.63	18.80
Period end	22.90	21.50
To earnings ratio (b)	91.60x	7.65
To book value	95 %	122
Performance ratios:		
Annualized return on average equity	8.59 %	10.15
Annualized return on average assets	0.66 %	0.70
Dividend payout ratio	58.70 %	52.60
Asset Quality:		
Allowance for credit losses as a % of:		
Loans	1.22 %	1.24
Nonperforming loans	887 %	559
Nonperforming assets as a % of:		
Loans and other real estate owned	0.14 %	0.22
Total assets	0.08 %	0.12
Nonperforming loans as a % of total loans	0.14 %	0.22
Annualized net recoveries as a % of average loans	— %	(0.03)
Capital Adequacy: (c)		
CET 1 risk-based capital ratio	14.75 %	15.01
Tier 1 risk-based capital ratio	14.75 %	15.01
Total risk-based capital ratio	15.76 %	15.98
Tier 1 leverage ratio	10.43 %	10.26
Other financial data:		
Net interest margin (a)	3.05 %	2.97
Effective income tax rate	19.48 %	12.05
Efficiency ratio (d)	73.08 %	72.88
Selected average balances:		
Securities	\$ 259,158	398,751
Loans, net of unearned income	568,628	514,635
Total assets	979,243	1,022,257
Total deposits	900,876	944,471
Total stockholders' equity	75,044	70,659
Selected period end balances:		
Securities	\$ 258,285	373,286
Loans, net of unearned income	565,699	545,610
Allowance for credit losses	6,876	6,778
Total assets	990,143	1,030,724
Total deposits	901,724	964,602
Total stockholders' equity	84,336	61,451

(a) Tax-equivalent. See "Table 1 - Explanation of Non-GAAP Financial Measures."

(b) Calculated by dividing period end share price by earnings per share for the previous four quarters.

(c) Regulatory capital ratios presented are for the Company's wholly-owned subsidiary, AuburnBank.

(d) Efficiency ratio is the result of noninterest expense divided by the sum of noninterest income and tax-equivalent net interest income. See Table 1 - Explanation of Non-GAAP

Measures.

[Table of Contents](#)

Table 4 - Average Balances and Net Interest Income Analysis

(Dollars in thousands)	Quarter ended September 30,					
	2024			2023		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest-earning assets:						
Loans and loans held for sale (1)	\$ 571,917	\$ 7,642	5.32%	\$ 529,521	\$ 6,373	4.77%
Securities - taxable (2)	241,604	1,327	2.19%	336,406	1,783	2.10%
Securities - tax-exempt (2)(3)	10,119	97	3.81%	54,366	510	3.72%
Total securities	251,723	1,424	2.25%	390,772	2,293	2.33%
Federal funds sold	18,696	255	5.43%	1,918	26	5.38%
Interest bearing bank deposits	46,174	659	5.68%	4,799	59	4.88%
Total interest-earning assets	888,510	\$ 9,980	4.47%	927,010	\$ 8,751	3.75%
Cash and due from banks	17,909			14,345		
Other assets	76,237			79,625		
Total assets	<u><u>\$ 982,656</u></u>			<u><u>\$ 1,020,980</u></u>		
Interest-bearing liabilities:						
Deposits:						
NOW	\$ 192,781	\$ 729	1.50%	\$ 191,849	\$ 534	1.10%
Savings and money market	253,943	614	0.96%	283,152	661	0.93%
Time deposits	198,009	1,826	3.67%	183,539	1,139	2.46%
Total interest-bearing deposits	644,733	3,169	1.96%	658,540	2,334	1.41%
Short-term borrowings	2	-	0.00%	4,347	37	3.38%
Total interest-bearing liabilities	644,735	\$ 3,169	1.96%	662,887	\$ 2,371	1.42%
Noninterest-bearing deposits	260,127			283,993		
Other liabilities	1,681			4,831		
Stockholders' equity	76,113			69,269		
Total liabilities and stockholders' equity	<u><u>\$ 982,656</u></u>			<u><u>\$ 1,020,980</u></u>		
Net interest income and margin (tax-equivalent)	\$ 6,811	3.05%		\$ 6,380	2.73%	

(1) Average loan balances are shown net of unearned income and loans on nonaccrual status have been included in the computation of average balances.

(2) Includes average net unrealized gains (losses) on investment securities available for sale

(3) Yields on tax-exempt securities have been computed on a tax-equivalent basis using a federal income tax rate of 21%.

[Table of Contents](#)

Table 5 - Average Balances and Net Interest Income Analysis

(Dollars in thousands)	Nine months ended September 30,					
	2024			2023		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest-earning assets:						
Loans and loans held for sale (1)	\$ 568,939	\$ 22,082	5.18%	\$ 514,706	\$ 18,146	4.71%
Securities - taxable (2)	248,923	4,109	2.20%	344,136	5,474	2.13%
Securities - tax-exempt (2)(3)	10,235	284	3.71%	54,615	1,531	3.75%
Total securities	259,158	4,393	2.26%	398,751	7,005	2.35%
Federal funds sold	18,014	738	5.47%	4,372	159	4.86%
Interest bearing bank deposits	39,530	1,619	5.47%	8,118	283	4.66%
Total interest-earning assets	885,641	\$ 28,832	4.35%	925,947	\$ 25,593	3.70%
Cash and due from banks	17,917			15,160		
Other assets	75,685			81,150		
Total assets	\$ 979,243			\$ 1,022,257		
Interest-bearing liabilities:						
Deposits:						
NOW	\$ 193,428	\$ 2,045	1.41%	\$ 189,586	\$ 1,067	0.75%
Savings and money market	250,146	1,486	0.79%	291,988	1,368	0.63%
Time deposits	196,584	5,082	3.45%	168,000	2,499	1.99%
Total interest-bearing deposits	640,158	8,613	1.80%	649,574	4,934	1.02%
Short-term borrowings	838	3	0.48%	3,748	68	2.43%
Total interest-bearing liabilities	640,996	\$ 8,616	1.80%	653,322	\$ 5,002	1.02%
Noninterest-bearing deposits	260,718			294,897		
Other liabilities	2,485			3,379		
Stockholders' equity	75,044			70,659		
Total liabilities and stockholders' equity	\$ 979,243			\$ 1,022,257		
Net interest income and margin (tax-equivalent)	\$ 20,216	3.05%		\$ 20,591	2.97%	

(1) Average loan balances are shown net of unearned income and loans on nonaccrual status have been included in the computation of average balances.

(2) Includes average net unrealized gains (losses) on investment securities available for sale

(3) Yields on tax-exempt securities have been computed on a tax-equivalent basis using a federal income tax rate of 21%.

[Table of Contents](#)

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by ITEM 3 is set forth in ITEM 2 under the caption "MARKET AND LIQUIDITY RISK MANAGEMENT" and is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

The Company, with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation and as of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to allow timely decisions regarding disclosure in its reports that the Company files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. There have been no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of its business, the Company and the Bank are, from time to time, involved in legal proceedings. The Company's and Bank's management believe there are no pending or threatened legal, governmental, or regulatory proceedings that, upon resolution, are expected to have a material adverse effect upon the Company's or the Bank's financial condition or results of operations. See also, Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. "RISK FACTORS" in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, which could materially affect our business, financial condition or future results. The risks described in our annual report on Form 10-K are not the only the risks facing our Company. The persistence of inflation above the Federal Reserve's long term targets, and the maintenance of or further increases in, tightened Federal Reserve monetary policy by increased target interest rates and reductions in the Federal Reserve's securities portfolio, have and are expected to continue to affect the levels of interest rates, mortgage originations and income, the market values of our securities portfolio and loans and have resulted in unrealized losses that have adversely affected our stockholders' equity. These have affected and are expected to continue to affect our deposit costs and mixes, and consumer savings and payment behaviors. These may also affect our borrower's operating costs, expected returns and cash flows available to service our loans. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results in the future.

[Table of Contents](#)

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company did not sell any common stock or other equity securities during the third quarter of 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

[Table of Contents](#)

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Incorporation of Auburn National Bancorporation, Inc. and all amendments thereto.*
3.2	Amended and Restated Bylaws of Auburn National Bancorporation, Inc., adopted as of November 13, 2007. **
31.1	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by David A. Hedges, President and Chief Executive Officer.
31.2	Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by W. James Walker, IV, Senior Vice President and Chief Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by David A. Hedges, President and Chief Executive Officer.***
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by W. James Walker, IV, Senior Vice President and Chief Financial Officer.***
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

104 Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Incorporated by reference from Registrant's Form 10-Q dated June 30, 2002.

** Incorporated by reference from Registrant's Form 10-K dated March 31, 2008.

*** The certifications attached as exhibits 32.1 and 32.2 to this quarterly report on Form 10-Q are "furnished" to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

[Table of Contents](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUBURN NATIONAL BANCORPORATION, INC.
(Registrant)

Date: November 1, 2024

By: /s/ David A. Hedges

David A. Hedges
President and CEO

Date: November 1, 2024

By: /s/ W. James Walker, IV

W. James Walker, IV
Senior Vice President and Chief Financial Officer

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES

EXHIBIT 31.1

CERTIFICATION PURSUANT TO

RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934,

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, David A. Hedges, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Auburn NationalBancorporation, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material

fact necessary to make the statements made, in light of the circumstances under which such statements were made, not

misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report present in

all material respects the financial condition, results of operations and cash flows of the registrant as of, and for periods

presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure and

procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as

defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including the consolidated subsidiaries, is made known to us by others within those entities, particularly during the

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES

EXHIBIT 31.2

CERTIFICATION PURSUANT TO

RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934,

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, W. James Walker, IV, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Auburn National Bancorporation, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material

fact necessary to make the statements made, in light of the circumstances under which such statements were made, not

misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report present in

all material respects the financial condition, results of operations and cash flows of the registrant as of, and for periods

presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure and

procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as

defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including consolidated subsidiaries, is made known to us by others within those entities, particularly during the

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES

EXHIBIT 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Auburn National Bancorporation, Inc. (the "Company") on Form 10-Q for the

period ending September 30, 2024, as filed with the Securities and Exchange Commission as of the date I, David A. Hedges, President and Chief Executive Officer ("Report"), I, David A. Hedges, President and Chief Executive Officer of the Company, certify, pursuant to § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial results of operations of the Company.

Date: November 1, 2024

/s/ David A. Hedges

David A. Hedges

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES

EXHIBIT 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Auburn National Bancorporation, Inc. (the "Company") on Form 10-Q for the

period ending September 30, 2024, as filed with the Securities and Exchange Commission as of the date I

(the "Report"), I, W. James Walker, IV, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to

18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1)

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2024

/s/ W. James Walker, IV

W. James Walker, IV

Senior Vice President and Chief Financial Officer

