

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

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2024

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-23636

**HAWTHORN BANCSHARES, INC.**

(Exact name of registrant as specified in its charter)

**Missouri**

(State or other jurisdiction of  
incorporation or organization)

**43-1626350**

(I.R.S. Employer Identification No.)

**132 East High Street, Box 688 , Jefferson City, Missouri 65102**

(Address of principal executive offices) (Zip Code)

**(573) 761-6100**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report.)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1.00 par value	HWBK	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Smaller reporting company ☒ Emerging growth company ☐

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

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

As of November 14, 2024, the registrant had 6,986,723 shares of common stock, par value \$1.00 per share, outstanding.

**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**  
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# PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES Consolidated Balance Sheets

(dollars in thousands, except per share data)

	September 30, 2024	December 31, 2023
	(Unaudited)	
<b>ASSETS</b>		
Cash and due from banks	\$ 19,411	\$ 15,675
Other interest-bearing deposits	34,813	77,775
Cash and cash equivalents	54,224	93,450
Certificates of deposit in other banks	1,000	—
Available-for-sale debt securities, at fair value	203,292	188,742
Other investments	5,727	6,300
Loans held for investment	1,466,751	1,539,147
Allowance for credit losses	(21,937)	(23,744)
<b>Net loans</b>	<b>1,444,814</b>	<b>1,515,403</b>
Loans held for sale	315	3,884
Premises and equipment - net	31,324	32,047
Other real estate owned - net	4,385	1,744
Cash surrender value of bank-owned life insurance	38,511	2,624
Accrued interest receivable and other assets	26,177	31,156
<b>Total assets</b>	<b>\$ 1,809,769</b>	<b>\$ 1,875,350</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Non-interest bearing demand	\$ 390,639	\$ 402,241
Savings, interest checking and money market	811,954	846,452
Time deposits	300,911	322,151
<b>Total deposits</b>	<b>1,503,504</b>	<b>1,570,844</b>
Federal Home Loan Bank advances and other borrowings	96,525	107,000
Subordinated notes	49,486	49,486
Operating lease liabilities	1,758	1,213
Accrued interest payable and other liabilities	12,022	10,722
<b>Total liabilities</b>	<b>1,663,295</b>	<b>1,739,265</b>
Stockholders' equity:		
Common stock, \$1.00 par value, authorized 15,000,000 shares; issued 7,554,893 shares	7,555	7,555
Surplus	76,856	76,818
Retained earnings	86,273	76,464
Accumulated other comprehensive loss, net of tax	(12,195)	(13,762)
Treasury stock; 568,170 and 515,570 shares, at cost, respectively	(12,015)	(10,990)
<b>Total stockholders' equity</b>	<b>146,474</b>	<b>136,085</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,809,769</b>	<b>\$ 1,875,350</b>

See accompanying notes to the consolidated financial statements (unaudited).

**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Income** *(unaudited)*

(dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 21,715	\$ 22,134	\$ 64,979	\$ 61,105
Interest and fees on loans held for sale	13	59	80	119
Interest on investment securities:				
Taxable	887	871	2,426	2,601
Nontaxable	594	618	1,782	1,876
Federal funds sold and Other interest-bearing deposits	469	85	1,732	726
Dividends on other investments	141	121	428	321
<b>Total interest income</b>	<b>23,819</b>	<b>23,888</b>	<b>71,427</b>	<b>66,748</b>
<b>INTEREST EXPENSE</b>				
Interest on deposits:				
Savings, interest checking and money market	4,910	4,466	14,034	11,961
Time deposits	2,834	2,173	8,744	6,208
<b>Total interest expense on deposits</b>	<b>7,744</b>	<b>6,639</b>	<b>22,778</b>	<b>18,169</b>
Interest on federal funds purchased and securities sold under agreements to repurchase	—	38	1	83
Interest on Federal Home Loan Bank advances	759	1,075	2,438	2,430
Interest on subordinated notes	989	989	2,964	2,769
<b>Total interest expense on borrowings</b>	<b>1,748</b>	<b>2,102</b>	<b>5,403</b>	<b>5,282</b>
<b>Total interest expense</b>	<b>9,492</b>	<b>8,741</b>	<b>28,181</b>	<b>23,451</b>
<b>Net interest income</b>	<b>14,327</b>	<b>15,147</b>	<b>43,246</b>	<b>43,297</b>
Provision for credit losses on loans and unfunded commitments	500	110	726	790
<b>Net interest income after provision for credit losses on loans and unfunded commitments</b>	<b>13,827</b>	<b>15,037</b>	<b>42,520</b>	<b>42,507</b>
<b>NON-INTEREST INCOME</b>				
Service charges and other fees	870	760	2,464	2,180
Bank card income and fees	1,037	1,029	3,084	3,044
Earnings on bank-owned life insurance	520	14	1,162	43
Trust department income	341	283	960	820
Real estate servicing fees, net	81	125	33	417
Gain on sale of mortgage loans, net	111	851	786	2,014
Gains (losses) on other real estate owned, net	262	(2,809)	751	(4,592)
Other	561	353	1,558	1,458
<b>Total non-interest income</b>	<b>3,783</b>	<b>606</b>	<b>10,798</b>	<b>5,384</b>
<b>Investment securities gains (losses), net</b>	<b>8</b>	<b>3</b>	<b>(7)</b>	<b>18</b>
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	6,539	7,124	19,993	20,978
Occupancy expense, net	843	842	2,364	2,437
Furniture and equipment expense	787	768	2,266	2,236
Processing, network, and bank card expense	1,480	1,320	4,212	3,797
Legal, examination, and professional fees	378	499	1,713	1,447
Advertising and promotion	198	375	711	1,084
Postage, printing, and supplies	215	248	571	621
Loan expense	126	147	515	771
Other	1,428	1,246	4,258	4,401
<b>Total non-interest expense</b>	<b>11,994</b>	<b>12,569</b>	<b>36,603</b>	<b>37,772</b>
<b>Income before income taxes</b>	<b>5,624</b>	<b>3,077</b>	<b>16,708</b>	<b>10,137</b>
Income tax expense	1,050	498	3,049	1,738
<b>Net income</b>	<b>\$ 4,574</b>	<b>\$ 2,579</b>	<b>\$ 13,659</b>	<b>\$ 8,399</b>
Basic earnings per share	\$ 0.66	\$ 0.36	\$ 1.95	\$ 1.19
Diluted earnings per share	\$ 0.66	\$ 0.36	\$ 1.95	\$ 1.19

See accompanying notes to the consolidated financial statements (unaudited).



**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income (Loss)** *(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands)</i>				
<b>Net income</b>	\$ 4,574	\$ 2,579	\$ 13,659	\$ 8,399
<b>Other comprehensive income (loss), net of tax</b>				
<b>Investment securities available-for-sale:</b>				
Change in unrealized gains (losses) on investment securities available-for-sale, net of tax	5,174	(9,325)	1,976	(7,948)
<b>Defined benefit pension plans:</b>				
Amortization of net gains included in net periodic pension cost, net of tax	(136)	(126)	(409)	(379)
<b>Total other comprehensive income (loss)</b>	5,038	(9,451)	1,567	(8,327)
<b>Total comprehensive income (loss)</b>	\$ 9,612	\$ (6,872)	\$ 15,226	\$ 72

See accompanying notes to the consolidated financial statements *(unaudited)*.

**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity** *(unaudited)*

**Three Months Ended September 30, 2024 and 2023**

	Accumulated Other						Total Stockholders'
	Common Stock	Surplus	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Equity	
<i>(dollars in thousands, except per share data)</i>							
<b>Balance, June 30, 2024</b>	\$ 7,555	\$ 76,808	\$ 83,026	\$ (17,233)	\$ (11,915)		\$ 138,241
Net income	—	—	4,574	—	—		4,574
Other comprehensive income	—	—	—	5,038	—		5,038
Share-based compensation expense	—	48	—	—	—		48
Purchase of treasury stock	—	—	—	—	(100)		(100)
Cash dividends declared, common stock (\$0.19 per share)	—	—	(1,327)	—	—		(1,327)
<b>Balance, September 30, 2024</b>	\$ 7,555	\$ 76,856	\$ 86,273	\$ (12,195)	\$ (12,015)		\$ 146,474
<b>Balance, June 30, 2023</b>	\$ 7,284	\$ 77,047	\$ 83,722	\$ (30,590)	\$ (10,990)		\$ 126,473
Net income	—	—	2,579	—	—		2,579
Other comprehensive loss	—	—	—	(9,451)	—		(9,451)
Stock dividend	271	(271)	—	—	—		—
Cash dividends declared, common stock (\$0.17 per share)	—	—	(1,197)	—	—		(1,197)
<b>Balance, September 30, 2023</b>	\$ 7,555	\$ 76,776	\$ 85,104	\$ (40,041)	\$ (10,990)		\$ 118,404

**Nine Months Ended September 30, 2024 and 2023**

	Accumulated Other						Total Stock - holders'
	Common Stock	Surplus	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Equity	
<i>(dollars in thousands, except per share data)</i>							
<b>Balance, December 31, 2023</b>	\$ 7,555	\$ 76,818	\$ 76,464	\$ (13,762)	\$ (10,990)		\$ 136,085
Net income	—	—	13,659	—	—		13,659
Other comprehensive income	—	—	—	1,567	—		1,567
Share-based compensation expense	—	119	—	—	—		119
Purchase of treasury stock	—	—	—	—	(1,106)		(1,106)
Restricted share unit vesting and taxes paid related to net share settlement	—	(81)	—	—	81		—
Cash dividends declared, common stock (\$0.55 per share)	—	—	(3,850)	—	—		(3,850)
<b>Balance, September 30, 2024</b>	\$ 7,555	\$ 76,856	\$ 86,273	\$ (12,195)	\$ (12,015)		\$ 146,474
<b>Balance, December 31, 2022</b>	\$ 7,284	\$ 71,042	\$ 91,789	\$ (31,714)	\$ (10,990)		\$ 127,411
Adoption of ASU 2016-13	—	—	(5,581)	—	—		(5,581)
Balance, January 01, 2023	7,284	71,042	86,208	(31,714)	(10,990)		121,830
Net income	—	—	8,399	—	—		8,399
Other comprehensive loss	—	—	—	(8,327)	—		(8,327)
Stock dividend	271	5,734	(6,005)	—	—		—
Cash dividends declared, common stock (\$0.51 per share)	—	—	(3,498)	—	—		(3,498)
<b>Balance, September 30, 2023</b>	\$ 7,555	\$ 76,776	\$ 85,104	\$ (40,041)	\$ (10,990)		\$ 118,404

See accompanying notes to the consolidated financial statements *(unaudited)*.



**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows** *(unaudited)*

	Nine Months Ended September 30,	
	2024	2023
<i>(dollars in thousands)</i>		
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,659	\$ 8,399
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on loans and unfunded commitments	726	790
Depreciation expense	1,413	1,608
Net amortization of investment securities, premiums, and discounts	618	772
Change in fair value of mortgage servicing rights	—	52
Investment securities losses (gains), net	7	(18)
Gain on sales and dispositions of premises and equipment	(69)	(154)
Gain on sales and dispositions of other real estate	(356)	(49)
(Release of) provision for valuation allowance for other real estate owned	(386)	4,643
Share-based compensation expense	119	—
Increase in cash surrender value - life insurance	(887)	(43)
Decrease (increase) in other assets	4,053	(1,134)
Decrease in operating lease liabilities	(178)	(238)
Increase in other liabilities	1,369	146
Origination of mortgage loans held for sale	(40,640)	(84,821)
Proceeds from the sale of mortgage loans held for sale	44,995	84,382
Gain on sale of mortgage loans, net	(786)	(2,014)
<b>Net cash provided by operating activities</b>	<b>23,657</b>	<b>12,321</b>
<b>Cash flows from investing activities:</b>		
Purchase of certificates of deposit in other banks	(1,000)	—
Proceeds from maturities of certificates of deposit in other banks	—	2,219
Purchase of bank-owned life insurance	(35,000)	—
Net decrease (increase) in loans	66,224	(35,469)
Purchase of available-for-sale debt securities	(32,919)	(9,468)
Proceeds from maturities of available-for-sale debt securities	7,996	15,252
Proceeds from calls of available-for-sale debt securities	12,256	615
Purchases of FHLB stock	(792)	(13,838)
Proceeds from sales of FHLB stock	1,358	13,204
Purchases of premises and equipment	(2,072)	(1,384)
Proceeds from sales of premises and equipment	425	158
Proceeds from sales of other real estate and repossessed assets	3,282	681
<b>Net cash provided by (used in) investing activities</b>	<b>19,758</b>	<b>(28,030)</b>
<b>Cash flows from financing activities:</b>		
Net decrease in demand deposits	(11,602)	(28,338)
Net decrease in interest-bearing transaction accounts	(34,498)	(121,011)
Net (decrease) increase in time deposits	(21,240)	97,635
Net increase in federal funds purchased and securities sold under agreements to repurchase	—	1,009
Repayment of FHLB advances and other borrowings	(25,203)	(328,890)
FHLB advances	14,728	342,890
Purchase of treasury stock	(1,106)	—
Cash dividends paid - common stock	(3,720)	(3,452)
<b>Net cash used in financing activities</b>	<b>(82,641)</b>	<b>(40,157)</b>
Net decrease in cash and cash equivalents	(39,226)	(55,866)
Cash and cash equivalents, beginning of period	93,450	83,720
<b>Cash and cash equivalents, end of period</b>	<b>\$ 54,224</b>	<b>\$ 27,854</b>

See accompanying notes to the consolidated financial statements *(unaudited)*.



**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows** *(unaudited) continued*

<i>(dollars in thousands)</i>	Nine Months Ended September 30,	
	2024	2023
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 28,197	\$ 22,501
Income taxes	\$ —	\$ 1,925
<b>Non-cash investing and financing activities:</b>		
Transfer of loans to other real estate and repossessed assets	\$ 3,490	\$ 44
Right of use assets obtained in exchange for new operating lease liabilities	\$ 723	\$ —
Dividends declared not paid - common stock	\$ 1,327	\$ 1,197
Stock dividends	\$ —	\$ 6,005

See accompanying notes to the consolidated financial statements *(unaudited)*.

**HAWTHORN BANCSHARES, INC.**  
**AND SUBSIDIARIES**  
Notes to the Consolidated Financial Statements  
(Unaudited)

**(1) Summary of Significant Accounting Policies**

Hawthorn Bancshares, Inc. (the Company) through its subsidiary, Hawthorn Bank (the Bank), provides a broad range of banking services to individual and corporate customers located within the Missouri communities in and surrounding Jefferson City, Columbia, Clinton, Warsaw, Springfield, and the greater Kansas City metropolitan area. The Company is subject to competition from other financial and nonfinancial institutions that provide financial products. Additionally, the Company and its subsidiaries are subject to the regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

The accompanying unaudited consolidated financial statements of the Company have been prepared in conformity with United States (U.S.) generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q, and Rule 10-01 of Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

The preparation of the consolidated financial statements includes all adjustments that, in the opinion of management, are necessary in order to make those statements not misleading. Management is required to make estimates and assumptions, including the determination of the allowance for credit losses, real estate acquired in connection with foreclosure or in satisfaction of loans, and fair values of investment securities available-for-sale that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's management has evaluated and did not identify any subsequent events or transactions requiring recognition or disclosure in the consolidated financial statements other than mentioned below.

**(2) Loans and Allowance for Credit Losses**

*Loans*

Major classifications within the Company's loans held for investment portfolio at September 30, 2024 and December 31, 2023 were as follows:

<i>(dollars in thousands)</i>	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Commercial, financial, and agricultural	\$ 202,341	\$ 226,275
Real estate construction – residential	32,344	58,347
Real estate construction – commercial	65,432	130,296
Real estate mortgage – residential	369,103	372,391
Real estate mortgage – commercial	782,487	731,024
Installment and other consumer	15,044	20,814
<b>Total loans held for investment</b>	<b>\$ 1,466,751</b>	<b>\$ 1,539,147</b>

The Bank grants real estate, commercial, installment, and other consumer loans to customers located within the Missouri communities surrounding Jefferson City, Columbia, Clinton, Warsaw, Springfield, and the greater Kansas City metropolitan area. As such, the Bank is susceptible to changes in the economic environment in these communities. The Bank does not have a concentration of credit in any one economic sector. Accrued interest on loans totaled \$6.8 million and \$7.2 million at September 30, 2024 and December 31, 2023, respectively, and is included in accrued interest receivable and other assets on the Company's consolidated balance sheets. The total amount of accrued interest is excluded from the amortized cost basis of loans presented above. Further, the Company has elected not to measure an allowance for credit losses for accrued interest receivable. At September 30, 2024, loans of \$720.7 million were pledged to the Federal Home Loan Bank (FHLB) as collateral for borrowings and letters of credit.

**HAWTHORN BANCSHARES, INC.**  
**AND SUBSIDIARIES**  
Notes to the Consolidated Financial Statements  
(Unaudited)

***Allowance for Credit Losses***

The allowance for credit losses is measured using a lifetime expected loss model that incorporates relevant information about past events, including historical credit loss experience on loans with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the loans. The allowance for credit losses is measured on a collective (pool) basis. Loans are aggregated into pools based on similar risk characteristics including borrower type, collateral type and expected credit loss patterns. Loans that do not share similar risk characteristics, primarily large loans on non-accrual status, are evaluated on an individual basis. The allowance for credit losses is a valuation account that is deducted from loans amortized cost basis to present the net amount expected to be collected on the instrument. Expected recoveries are included in the allowance and do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Loans are charged off against the allowance for credit losses when management believes the balance has become uncollectible.

For loans evaluated for credit losses on a collective basis, average historical loss rates are calculated for each pool using relevant peer historical net charge-offs (combined charge-offs and recoveries by observable historical reporting period) and the Company's outstanding loan balances during a lookback period. The Company chose to use relevant peer loan loss data due to statistical relevance concerns, low observation counts, historical data limitations, and the inability to secure through the cycle loan-level data. Lookback periods can be different based on the individual pool and represent management's credit expectations for the pool of loans over the remaining contractual life. The calculated average net charge-off rate is then adjusted for current conditions and reasonable and supportable forecasts. These adjustments increase or decrease the average historical loss rate to reflect expectations of future losses given a single path economic forecast of a single macroeconomic variable, which is the civilian unemployment rate. The adjustments are based on results from various regression models projecting the impact of the selected macroeconomic variable to loss rates. The forecast is used for a reasonable and supportable period before reverting back to historical averages using a straight-line method. The forecast adjusted loss rate is applied to the loans over the remaining contractual lives, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals and modifications. Credit cards and certain similar consumer lines of credit do not have stated maturities and therefore, for these loan classes, remaining contractual lives are determined by estimating future cash flows expected to be received from customers until payments have been fully allocated to outstanding balances. Agriculture loans also use the remaining life methodology for estimating life of loan losses. Additionally, the allowance for credit losses considers qualitative or environmental factors, such as: lending policies and procedures; economic conditions; the nature, volume and terms of the portfolio; lending staff and management; past due loans; the loan review system; collateral values; concentrations of credit; and external factors.

***Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures***

The Company maintains a separate allowance for credit losses for off-balance-sheet credit exposures, including unfunded loan commitments, unless the associated obligation is unconditionally cancellable by the Company. This allowance is included in other liabilities on the consolidated balance sheets with associated expense recognized as a component of the provision for credit losses on the consolidated statements of income. The liability for unfunded lending commitments utilizes the same model as the allowance for credit losses on loans, however, the liability for unfunded lending commitments incorporates an assumption for the portion of unfunded commitments that are expected to be funded.

***Sensitivity in the Allowance for Credit Loss Model***

The allowance for credit losses is an estimate that requires significant judgment including projections of the macroeconomic environment. The forecasted macroeconomic environment continuously changes, which can cause fluctuations in estimated expected losses.

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The following tables illustrate the changes in the allowance for credit losses by portfolio segment:

**Three Months Ended September 30, 2024**

	Commercial, Financial, & Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment and Other Consumer	Un- allocated	Total
<i>(dollars in thousands)</i>								
<b>Allowance for Credit Losses on Loans</b>								
Balance at beginning of period	\$ 1,621	\$ 598	\$ 1,477	\$ 5,213	\$ 12,908	\$ 163	\$ —	\$ 21,980
Charge-offs	270	—	—	—	343	66	—	679
Recoveries	16	—	—	7	—	20	—	43
Provision for (release of) credit losses	263	(12)	347	62	69	29	(165)	593
Balance at end of period	\$ 1,630	\$ 586	\$ 1,824	\$ 5,282	\$ 12,634	\$ 146	\$ (165)	\$ 21,937
<b>Liability for Unfunded Commitments</b>								
Balance at beginning of period	\$ 91	\$ 126	\$ 451	\$ 110	\$ 112	\$ 1	\$ —	\$ 891
Provision for (release of) credit losses on unfunded commitments	13	(27)	(103)	(3)	27	—	—	(93)
Balance at end of period	\$ 104	\$ 99	\$ 348	\$ 107	\$ 139	\$ 1	\$ —	\$ 798
<b>Allowance for credit losses on loans and liability for unfunded commitments</b>	<b>\$ 1,734</b>	<b>\$ 685</b>	<b>\$ 2,172</b>	<b>\$ 5,389</b>	<b>\$ 12,773</b>	<b>\$ 147</b>	<b>\$ (165)</b>	<b>\$ 22,735</b>

**Nine Months Ended September 30, 2024**

	Commercial, Financial, & Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment and Other Consumer	Un- allocated	Total
<i>(dollars in thousands)</i>								
<b>Allowance for Credit Losses on Loans</b>								
Balance at beginning of period	\$ 3,208	\$ 1,043	\$ 3,273	\$ 5,264	\$ 10,537	\$ 232	\$ 187	\$ 23,744
Charge-offs	2,158	—	—	23	433	196	—	2,810
Recoveries	36	—	—	12	—	80	—	128
Provision for (release of) credit losses	544	(457)	(1,449)	29	2,530	30	(352)	875
Balance at end of period	\$ 1,630	\$ 586	\$ 1,824	\$ 5,282	\$ 12,634	\$ 146	\$ (165)	\$ 21,937
<b>Liability for Unfunded Commitments</b>								
Balance at beginning of period	\$ 197	\$ 273	\$ 245	\$ 103	\$ 110	\$ 1	\$ 18	\$ 947
Provision for (release of) credit losses on unfunded commitments	(93)	(174)	103	4	29	—	(18)	(149)
Balance at end of period	\$ 104	\$ 99	\$ 348	\$ 107	\$ 139	\$ 1	\$ —	\$ 798
<b>Allowance for credit losses on loans and liability for unfunded commitments</b>	<b>\$ 1,734</b>	<b>\$ 685</b>	<b>\$ 2,172</b>	<b>\$ 5,389</b>	<b>\$ 12,773</b>	<b>\$ 147</b>	<b>\$ (165)</b>	<b>\$ 22,735</b>

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Three Months Ended September 30, 2023

	Commercial, Financial, & Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment and Other Consumer	Un- allocated	Total
<i>(dollars in thousands)</i>								
<b>Allowance for Credit Losses on Loans</b>								
Balance at beginning of period	\$ 1,844	\$ 748	\$ 3,422	\$ 5,465	\$ 10,295	\$ 217	\$ 245	\$ 22,236
Charge-offs	16	—	—	—	3	76	—	95
Recoveries	9	—	—	2	1	9	—	21
Provision for (release of) credit losses	99	125	(157)	(153)	440	94	(148)	300
Balance at end of period	\$ 1,936	\$ 873	\$ 3,265	\$ 5,314	\$ 10,733	\$ 244	\$ 97	\$ 22,462
<b>Liability for Unfunded Commitments</b>								
Balance at beginning of period	\$ 112	\$ 355	\$ 414	\$ 108	\$ 126	\$ 1	\$ 21	\$ 1,137
Provision for (release of) credit losses on unfunded commitments	9	(68)	(110)	(4)	(1)	—	(16)	(190)
Balance at end of period	\$ 121	\$ 287	\$ 304	\$ 104	\$ 125	\$ 1	\$ 5	\$ 947
Allowance for credit losses on loans and liability for unfunded commitments	\$ 2,057	\$ 1,160	\$ 3,569	\$ 5,418	\$ 10,858	\$ 245	\$ 102	\$ 23,409

Nine Months Ended September 30, 2023

	Commercial, Financial, & Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment and Other Consumer	Un- allocated	Total
<i>(dollars in thousands)</i>								
<b>Allowance for Credit Losses on Loans</b>								
Balance at beginning of period	\$ 2,735	\$ 157	\$ 875	\$ 3,329	\$ 8,000	\$ 326	\$ 166	\$ 15,588
Adoption of ASU 2016-13	(649)	291	2,894	1,890	1,613	(80)	(166)	5,793
Balance at January 1, 2023	2,086	448	3,769	5,219	9,613	246	—	21,381
Charge-offs	59	—	—	—	28	204	—	291
Recoveries	183	—	—	6	3	65	—	257
Provision for (release of) credit losses	(274)	425	(504)	89	1,145	137	97	1,115
Balance at end of period	\$ 1,936	\$ 873	\$ 3,265	\$ 5,314	\$ 10,733	\$ 244	\$ 97	\$ 22,462
<b>Liability for Unfunded Commitments</b>								
Balance at beginning of period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Adoption of ASU 2016-13	104	341	569	107	150	1	—	1,272
Balance at January 1, 2023	104	341	569	107	150	1	—	1,272
Provision for (release of) credit losses on unfunded commitments	17	(54)	(265)	(3)	(25)	—	5	(325)
Balance at end of period	\$ 121	\$ 287	\$ 304	\$ 104	\$ 125	\$ 1	\$ 5	\$ 947
Allowance for credit losses on loans and liability for unfunded commitments	\$ 2,057	\$ 1,160	\$ 3,569	\$ 5,418	\$ 10,858	\$ 245	\$ 102	\$ 23,409

**Collateral-Dependent loans**

Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. Under the CECL methodology, for collateral-dependent loans, the Company has adopted the practical expedient to measure the allowance on the fair value of collateral.

The allowance is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and the loan's amortized cost. If the fair value of the collateral exceeds the loan's amortized cost, no allowance is necessary. The Company's policy is to obtain appraisals on any significant pieces of collateral. Higher discounts are applied in determining fair value for real estate collateral in industries that are undergoing significant stress, or for properties that are specialized use or have limited marketability.

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There have been no significant changes to the types of collateral securing the Company's collateral dependent loans since December 31, 2023.

The amortized cost of collateral-dependent loans by class as of September 30, 2024 and December 31, 2023 was as follows:

(dollars in thousands)	Collateral Type			Allowance Allocated		
	Real Estate	Other				
September 30, 2024						
Commercial, financial, and agricultural	\$	—	\$	1,240	\$	124
Real estate construction – residential		454		—		194
Real estate mortgage – commercial		65		—		—
Total	\$	519	\$	1,240	\$	318
December 31, 2023						
Commercial, financial, and agricultural	\$	—	\$	2,221	\$	1,300
Real estate construction – residential		432		—		164
Real estate mortgage – residential		46		—		19
Real estate mortgage – commercial		2,369		—		—
Total	\$	2,847	\$	2,221	\$	1,483

**Credit Quality**

The Company categorizes loans into risk categories based upon an internal rating system reflecting management's risk assessment.

- *Pass* - loans that are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell in a timely manner, of any underlying collateral.
- *Watch* - loans that have one or more weaknesses identified that may result in the borrower being unable to meet repayment terms or when the Company's credit position could deteriorate at some future date.
- *Special Mention* - loans that have negative financial trends, or other weaknesses that if left uncorrected, could threaten its capacity to meet its debt obligations. This is a transitional grade that is closely monitored by management for improvement or deterioration.
- *Substandard* - loans that are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified may have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Such loans are characterized by the distinct possibility that the Company may sustain some loss if the deficiencies are not corrected.
- *Doubtful* - loans that have all the weaknesses inherent in loans classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values. These loans are also on non-accrual status.
- *Non-accrual* - loans that are delinquent for 90 days or more and the ultimate collectability of interest or principal is no longer probable. Real estate loans secured by one-to-four family residential properties are exempt from these non-accrual guidelines. These loans are placed on non-accrual status after they become 120 days past due (The majority of the Company's non-accrual loans have a substandard risk grade.)



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The following table presents the recorded investment by risk categories at September 30, 2024:

	Term Loans																	
	Amortized Cost Basis by Origination Year and Risk Grades																	
											Revolving Loans							
											Revolving Loans	Converted to Term						
											Amortized Cost	Loans Amortized						
(dollars in thousands)	2024	2023	2022	2021	2020	Prior		Basis		Cost Basis	Total							
September 30, 2024																		
Commercial, Financial, & Agricultural																		
Pass	\$	19,766	\$	23,289	\$	34,214	\$	26,690	\$	27,620	\$	4,127	\$	53,944	\$	1,595	\$	191,245
Watch		—		101		1,460		—		321		267		2,331		—		4,480
Substandard		168		—		3,431		638		—		—		500		—		4,737
Doubtful		—		—		—		15		—		—		—				15
Non-accrual loans		286		357		150		98		37		—		936		—		1,864
Total	\$	20,220	\$	23,747	\$	39,255	\$	27,441	\$	27,978	\$	4,394	\$	57,711	\$	1,595	\$	202,341
Gross YTD charge-offs		—		230		—		89		2		91		1,746		—		2,158
Real Estate Construction - Residential																		
Pass	\$	10,959	\$	17,954	\$	2,187	\$	621	\$	169	\$	—	\$	—	\$	—	\$	31,890
Non-accrual loans		—		454		—		—		—		—		—		—		454
Total	\$	10,959	\$	18,408	\$	2,187	\$	621	\$	169	\$	—	\$	—	\$	—	\$	32,344
Gross YTD charge-offs		—		—		—		—		—		—		—		—		—
Real Estate Construction - Commercial																		
Pass	\$	38,257	\$	8,441	\$	11,047	\$	4,028	\$	633	\$	627	\$	1,814	\$	—	\$	64,847
Watch		316		125		14		—		—		—		—		—		455
Substandard		—		75		—		—		—		—		—		—		75
Non-accrual loans		—		—		—		—		—		55		—		—		55
Total	\$	38,573	\$	8,641	\$	11,061	\$	4,028	\$	633	\$	682	\$	1,814	\$	—	\$	65,432
Gross YTD charge-offs		—		—		—		—		—		—		—		—		—
Real Estate Mortgage - Residential																		
Pass	\$	20,351	\$	54,317	\$	119,466	\$	52,519	\$	43,373	\$	25,791	\$	43,632	\$	1,179	\$	360,628
Watch		5,730		—		41		397		365		700		24		—		7,257
Substandard		65		—		—		—		—		40		—		—		105
Non-accrual loans		—		—		431		89		56		305		232		—		1,113
Total	\$	26,146	\$	54,317	\$	119,938	\$	53,005	\$	43,794	\$	26,836	\$	43,888	\$	1,179	\$	369,103
Gross YTD charge-offs		—		—		—		—		—		1		22		—		23
Real Estate Mortgage - Commercial																		
Pass	\$	41,722	\$	121,314	\$	215,466	\$	207,422	\$	74,842	\$	60,412	\$	16,630	\$	51	\$	737,859
Watch		2,255		51		4,883		1,993		279		425		76		582		10,544
Special Mention		27,655		—		5,747		—		—		—		—		—		33,402
Substandard		47		—		206		219		31		—		—		—		503
Non-accrual loans		—		101		78		—		—		—		—		—		179
Total	\$	71,679	\$	121,466	\$	226,380	\$	209,634	\$	75,152	\$	60,837	\$	16,706	\$	633	\$	782,487
Gross YTD charge-offs		—		340		—		65		—		28		—		—		433
Installment and other Consumer																		
Pass	\$	1,965	\$	4,192	\$	4,179	\$	1,467	\$	708	\$	2,448	\$	74	\$	—	\$	15,033
Non-accrual loans		—		2		9		—		—		—		—		—		11
Total	\$	1,965	\$	4,194	\$	4,188	\$	1,467	\$	708	\$	2,448	\$	74	\$	—	\$	15,044
Gross YTD charge-offs		10		5		9		3		—		168		1		—		196
Total Portfolio																		
Pass	\$	133,020	\$	229,507	\$	386,559	\$	292,747	\$	147,345	\$	93,405	\$	116,094	\$	2,825	\$	1,401,502
Watch		8,301		277		6,398		2,390		965		1,392		2,431		582		22,736
Special Mention		27,655		—		5,747		—		—		—		—		—		33,402
Substandard		280		75		3,637		857		31		40		500		—		5,420
Doubtful		—		—		—		15		—		—		—		—		15
Non-accrual loans		286		914		668		187		93		360		1,168		—		3,676
Total	\$	169,542	\$	230,773	\$	403,009	\$	296,196	\$	148,434	\$	95,197	\$	120,193	\$	3,407	\$	1,466,751
Total Gross YTD charge-offs	\$	10	\$	575	\$	9	\$	157	\$	2	\$	288	\$	1,769	\$	—	\$	2,810



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The following table presents the recorded investment by risk categories at December 31, 2023:

## Term Loans

## Amortized Cost Basis by Origination Year and Risk Grades

(dollars in thousands)							Revolving Loans											
							Revolving Loans		Converted to Term		Total							
							Amortized Cost		Loans Amortized									
							Basis		Cost Basis									
2023	2022	2021	2020	2019	Prior													
December 31, 2023																		
Commercial, Financial, & Agricultural																		
Pass	\$	40,103	\$	43,082	\$	32,812	\$	30,965	\$	4,774	\$	5,022	\$	55,379	\$	213	\$	212,350
Watch		1		2,505		32		586		3		282		2,502		—		5,911
Substandard		371		3,758		19		16		—		—		323		1,299		5,786
Non-accrual loans		159		96		317		—		7		—		1,649		—		2,228
Total	\$	40,634	\$	49,441	\$	33,180	\$	31,567	\$	4,784	\$	5,304	\$	59,853	\$	1,512	\$	226,275
Gross YTD charge-offs		—		1		—		—		—		160		—		—		161
Real Estate Construction - Residential																		
Pass	\$	39,847	\$	17,259	\$	634	\$	175	\$	—	\$	—	\$	—	\$	—	\$	57,915
Non-accrual loans		432		—		—		—		—		—		—		—		432
Total	\$	40,279	\$	17,259	\$	634	\$	175	\$	—	\$	—	\$	—	\$	—	\$	58,347
Gross YTD charge-offs		—		—		—		—		—		—		—		—		—
Real Estate Construction - Commercial																		
Pass	\$	49,041	\$	53,058	\$	24,371	\$	1,040	\$	31	\$	735	\$	187	\$	—	\$	128,463
Watch		934		17		—		—		—		—		103		—		1,054
Substandard		710		—		—		—		—		—		—		—		710
Non-accrual loans		—		—		—		—		—		69		—		—		69
Total	\$	50,685	\$	53,075	\$	24,371	\$	1,040	\$	31	\$	804	\$	290	\$	—	\$	130,296
Gross YTD charge-offs		—		—		—		—		—		—		—		—		—
Real Estate Mortgage - Residential																		
Pass	\$	65,472	\$	121,430	\$	62,998	\$	47,884	\$	7,242	\$	19,193	\$	44,574	\$	202	\$	368,995
Watch		179		251		411		293		71		1,310		23		—		2,538
Substandard		16		—		—		129		—		126		—		—		271
Non-accrual loans		—		23		93		135		—		246		90		—		587
Total	\$	65,667	\$	121,704	\$	63,502	\$	48,441	\$	7,313	\$	20,875	\$	44,687	\$	202	\$	372,391
Gross YTD charge-offs		—		—		—		75		—		—		13		—		88
Real Estate Mortgage - Commercial																		
Pass	\$	99,081	\$	208,699	\$	204,789	\$	84,363	\$	27,085	\$	39,941	\$	16,059	\$	659	\$	680,676
Watch		15,759		10,978		2,737		91		345		897		70		—		30,877
Substandard		—		215		15,944		—		45		289		—		—		16,493
Non-accrual loans		1,817		54		712		212		83		—		100		—		2,978
Total	\$	116,657	\$	219,946	\$	224,182	\$	84,666	\$	27,558	\$	41,127	\$	16,229	\$	659	\$	731,024
Gross YTD charge-offs		—		—		—		—		—		32		—		—		32
Installment and other Consumer																		
Pass	\$	7,430	\$	6,497	\$	2,720	\$	1,287	\$	987	\$	1,803	\$	90	\$	—	\$	20,814
Total	\$	7,430	\$	6,497	\$	2,720	\$	1,287	\$	987	\$	1,803	\$	90	\$	—	\$	20,814
Gross YTD charge-offs		84		23		7		—		—		232		1		—		347
Total Portfolio																		
Pass	\$	300,974	\$	450,025	\$	328,324	\$	165,714	\$	40,119	\$	66,694	\$	116,289	\$	1,074	\$	1,469,213
Watch		16,873		13,751		3,180		970		419		2,489		2,698		—		40,380
Substandard		1,097		3,973		15,963		145		45		415		323		1,299		23,260
Non-accrual loans		2,408		173		1,122		347		90		315		1,839		—		6,294
Total	\$	321,352	\$	467,922	\$	348,589	\$	167,176	\$	40,673	\$	69,913	\$	121,149	\$	2,373	\$	1,539,147
Total Gross YTD charge-offs	\$	84	\$	24	\$	7	\$	75	\$	—	\$	424	\$	14	\$	—	\$	628



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**Delinquent and Non-Accrual Loans**

The delinquency status of loans is determined based on the contractual terms of the notes. Loans are generally classified as delinquent once payments become 30 days or more past due. The Company's policy is to discontinue the accrual of interest income on any loan when, in the opinion of management, the ultimate collectability of interest or principal is no longer probable. In general, loans are placed on non-accrual status when they become 90 days or more past due. However, management considers many factors before placing a loan on non-accrual status, including the delinquency status of the loan, the overall financial condition of the borrower, the progress of management's collection efforts and the value of the underlying collateral. Subsequent interest payments received on non-accrual loans are applied to principal if any doubt exists as to the collectability of such principal; otherwise, such receipts are recorded as interest income on a cash basis. Non-accrual loans are returned to accrual status when, in the opinion of management, the financial condition of the borrower indicates that the timely collectability of interest and principal is probable and the borrower demonstrates the ability to pay under the terms of the note through a sustained period of repayment performance, which is generally six months.

The following table presents the recorded investment in non-accrual loans and loans past due over 90 days still on accrual by class of loans as of September 30, 2024 and December 31, 2023:

<i>(dollars in thousands)</i>	Non-accrual with no Allowance	Non-accrual with Allowance	Total Non-accrual	90 Days Past Due And Still Accruing	Total Non- performing Loans
<b>September 30, 2024</b>					
Commercial, Financial, and Agricultural	\$ 474	\$ 1,405	\$ 1,879	\$ —	\$ 1,879
Real estate construction – residential	—	454	454	—	454
Real estate construction – commercial	—	55	55	—	55
Real estate mortgage – residential	—	1,113	1,113	373	1,486
Real estate mortgage – commercial	—	179	179	—	179
Installment and Other Consumer	—	11	11	2	13
<b>Total</b>	<b>\$ 474</b>	<b>\$ 3,217</b>	<b>\$ 3,691</b>	<b>\$ 375</b>	<b>\$ 4,066</b>
<b>December 31, 2023</b>					
Commercial, Financial, and Agricultural	\$ —	\$ 2,228	\$ 2,228	\$ —	\$ 2,228
Real estate construction – residential	—	432	432	—	432
Real estate construction – commercial	—	69	69	—	69
Real estate mortgage – residential	—	587	587	115	702
Real estate mortgage – commercial	2,368	610	2,978	—	2,978
Installment and Other Consumer	—	—	—	4	4
<b>Total</b>	<b>\$ 2,368</b>	<b>\$ 3,926</b>	<b>\$ 6,294</b>	<b>\$ 119</b>	<b>\$ 6,413</b>

No material amount of interest income was recognized on non-accrual loans during the three and nine months ended September 30, 2024.

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The following table provides aging information for the Company's past due and non-accrual loans at September 30, 2024 and December 31, 2023.

	Current or Less Than 30 Days Past		30 - 89 Days Past	90 Days Past Due And Still						
(dollars in thousands)	Due		Due	Accruing		Non-Accrual	Total			
September 30, 2024										
Commercial, Financial, and Agricultural	\$	200,451	\$	11	\$	—	\$	1,879	\$	202,341
Real estate construction – residential		31,487		403		—		454		32,344
Real estate construction – commercial		65,251		126		—		55		65,432
Real estate mortgage – residential		366,695		922		373		1,113		369,103
Real estate mortgage – commercial		782,210		98		—		179		782,487
Installment and Other Consumer		14,957		74		2		11		15,044
Total	\$	1,461,051	\$	1,634	\$	375	\$	3,691	\$	1,466,751
December 31, 2023										
Commercial, Financial, and Agricultural	\$	223,845	\$	202	\$	—	\$	2,228	\$	226,275
Real estate construction – residential		57,568		347		—		432		58,347
Real estate construction – commercial		130,227		—		—		69		130,296
Real estate mortgage – residential		368,956		2,733		115		587		372,391
Real estate mortgage – commercial		728,029		17		—		2,978		731,024
Installment and Other Consumer		20,607		203		4		—		20,814
Total	\$	1,529,232	\$	3,502	\$	119	\$	6,294	\$	1,539,147

**Loan Modifications for Borrowers Experiencing Financial Difficulty**

In the normal course of business, the Company may execute loan modifications with borrowers. These modifications are analyzed to determine whether the modification is considered concessionary, long-term and made to a borrower experiencing financial difficulty. The Company's modifications generally include interest rate adjustments, principal reductions, and amortization and maturity date extensions. If a loan modification is determined to be made to a borrower experiencing financial difficulty, the loan is considered collateral-dependent and evaluated as part of the allowance for credit losses as described above in the *Allowance for Credit Losses* section of this note.

For the three and nine months ended September 30, 2024, the Company did not modify any loans made to borrowers experiencing financial difficulty. The Company monitors loan payments on an on-going basis to determine if a loan is considered to have a payment default. Determination of payment default involves analyzing the economic conditions that exist for each customer and their ability to generate positive cash flows during the loan term.

**Loans Held for Sale**

The Company designates certain long-term fixed rate personal real estate loans as held for sale. Prior to September 30, 2024, these loans were initially measured at fair value under the fair value option election with subsequent changes in fair value recognized in mortgage banking income. As of September 30, 2024, loans held for sale are being carried at the lower of cost or estimated fair value. The loans are primarily sold to Freddie Mac, Fannie Mae, PennyMac, and various other secondary market investors. At September 30, 2024, the carrying amount of these loans was \$0.3 million compared to \$3.9 million at December 31, 2023.



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**(3) Other Real Estate and Other Assets Acquired in Settlement of Loans**

	September 30, 2024	December 31, 2023
<i>(dollars in thousands)</i>		
Commercial	\$ 98	\$ —
Real estate construction - commercial	2,549	7,668
Real estate mortgage - residential	—	20
Real estate mortgage - commercial	3,482	—
Reposessed assets	—	6
Total	\$ 6,129	\$ 7,694
Less valuation allowance for other real estate owned	(1,744)	(5,950)
<b>Total other real estate owned and reposessed assets</b>	<b>\$ 4,385</b>	<b>\$ 1,744</b>

Changes in the net carrying amount of other real estate owned and reposessed assets were as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands)</i>				
<b>Balance at beginning of period</b>	\$ 5,369	\$ 10,924	\$ 7,694	\$ 11,459
Additions	760	—	5,181	44
Proceeds from sales	—	(54)	(3,282)	(681)
Charge-offs against the valuation allowance for other real estate owned, net	—	(40)	(3,820)	(40)
Net gain on sales	—	1	356	49
Total other real estate owned	6,129	10,831	\$ 6,129	\$ 10,831
Less valuation allowance for other real estate owned	(1,744)	(7,267)	(1,744)	(7,267)
<b>Balance at end of period</b>	<b>\$ 4,385</b>	<b>\$ 3,564</b>	<b>\$ 4,385</b>	<b>\$ 3,564</b>

Activity in the valuation allowance for other real estate owned was as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands)</i>				
<b>Balance at beginning of period</b>	\$ 1,744	\$ 4,495	\$ 5,950	\$ 2,664
Provision for valuation allowance for other real estate owned	—	2,812	(386)	4,643
Charge-offs	—	(40)	(3,820)	(40)
<b>Balance at end of period</b>	<b>\$ 1,744</b>	<b>\$ 7,267</b>	<b>\$ 1,744</b>	<b>\$ 7,267</b>

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**(4) Investment Securities**

The amortized cost and fair value of debt securities classified as available-for-sale at September 30, 2024 and December 31, 2023 were as follows:

(dollars in thousands)	Total Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
September 30, 2024				
U.S. government and federal agency obligations	\$ 408	\$ —	\$ (8)	\$ 400
U.S. government-sponsored enterprises	13,026	97	(164)	12,959
Obligations of states and political subdivisions	125,762	54	(19,043)	106,773
Mortgage-backed securities	67,862	469	(4,995)	63,336
Other debt securities (a)	19,413	59	(860)	18,612
Bank issued trust preferred securities (a)	1,486	—	(274)	1,212
Total available-for-sale securities	\$ 227,957	\$ 679	\$ (25,344)	\$ 203,292
December 31, 2023				
U.S. Treasury	\$ 1,977	\$ 1	\$ —	\$ 1,978
U.S. government and federal agency obligations	446	—	(19)	427
U.S. government-sponsored enterprises	22,042	16	(236)	21,822
Obligations of states and political subdivisions	126,396	55	(19,566)	106,885
Mortgage-backed securities	51,736	27	(6,123)	45,640
Other debt securities (a)	11,825	22	(1,026)	10,821
Bank issued trust preferred securities (a)	1,486	—	(317)	1,169
Total available-for-sale securities	\$ 215,908	\$ 121	\$ (27,287)	\$ 188,742

(a) Certain hybrid instruments possessing characteristics typically associated with debt obligations.

The Company's investment securities are classified as available for sale. Agency bonds and notes, loan certificates guaranteed by the Small Business Administration, residential and commercial agency mortgage-backed securities, and agency collateralized mortgage obligations include securities issued by the Government National Mortgage Association, a U.S. government agency, and the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the FHLB, which are U.S. government-sponsored enterprises.

Debt securities with carrying values aggregating approximately \$84.9 million and \$89.2 million at September 30, 2024 and December 31, 2023, respectively, were pledged to secure public funds, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

There were no proceeds from sales of available-for-sale securities for the three and nine months ended September 30, 2024 and 2023. All gains and losses recognized on equity securities during the three and nine months ended September 30, 2024 and 2023 were unrealized.

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The amortized cost and fair value of debt securities classified as available-for-sale at September 30, 2024, by contractual maturity are shown below. Accrued interest on investments was consistent at \$1.4 million at both September 30, 2024 and December 31, 2023, and is included in accounts receivable and other assets on the Company's consolidated balance sheets. The total amount of accrued interest is excluded from the amortized cost basis of investments presented below. Further, the Company has elected not to measure an allowance for credit losses for accrued interest receivable. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.

<i>(dollars in thousands)</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 4,278	\$ 4,267
Due after one year through five years	14,304	14,288
Due after five years through ten years	36,216	33,785
Due after ten years	105,297	87,616
<b>Total</b>	<b>\$ 160,095</b>	<b>\$ 139,956</b>
Mortgage-backed securities	67,862	63,336
<b>Total available-for-sale securities</b>	<b>\$ 227,957</b>	<b>\$ 203,292</b>

*Other Investment Securities*

Other investment securities include equity securities with readily determinable fair values and other investment securities that do not have readily determinable fair values. Investments in FHLB stock, and Midwest Independent BankersBank ("MIB") stock, that do not have readily determinable fair values, are required for membership in those organizations.

<i>(dollars in thousands)</i>	<b>September 30, 2024</b>	<b>December 31, 2023</b>
<b>Other securities:</b>		
FHLB stock	\$ 5,504	\$ 6,071
MIB stock	151	151
Equity securities with readily determinable fair values	72	78
<b>Total other investment securities</b>	<b>\$ 5,727</b>	<b>\$ 6,300</b>

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Gross unrealized losses on debt securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2024 and December 31, 2023 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
<b>September 30, 2024</b>						
U.S. government and federal agency obligations	\$ —	\$ —	\$ 400	\$ (8)	\$ 400	\$ (8)
U.S. government-sponsored enterprises	—	—	1,835	(164)	1,835	(164)
Obligations of states and political subdivisions	537	(117)	103,386	(18,926)	103,923	(19,043)
Mortgage-backed securities	—	—	36,173	(4,995)	36,173	(4,995)
Other debt securities	5,625	(52)	9,018	(808)	14,643	(860)
Bank issued trust preferred securities	—	—	1,212	(274)	1,212	(274)
<b>Total</b>	<b>\$ 6,162</b>	<b>\$ (169)</b>	<b>\$ 152,024</b>	<b>\$ (25,175)</b>	<b>\$ 158,186</b>	<b>\$ (25,344)</b>
<i>(dollars in thousands)</i>						
<b>December 31, 2023</b>						
U.S. Treasury	\$ 997	\$ —	\$ —	\$ —	\$ 997	\$ —
U.S. government and federal agency obligations	—	—	427	(19)	427	(19)
U.S. government-sponsored enterprises	11,995	(8)	1,772	(228)	13,767	(236)
Obligations of states and political subdivisions	1,501	(158)	103,283	(19,408)	104,784	(19,566)
Mortgage-backed securities	2,935	(40)	39,793	(6,083)	42,728	(6,123)
Other debt securities	—	—	8,799	(1,026)	8,799	(1,026)
Bank issued trust preferred securities	—	—	1,169	(317)	1,169	(317)
<b>Total</b>	<b>\$ 17,428</b>	<b>\$ (206)</b>	<b>\$ 155,243</b>	<b>\$ (27,081)</b>	<b>\$ 172,671</b>	<b>\$ (27,287)</b>

The total available-for-sale portfolio consisted of approximately 394 securities at September 30, 2024. The portfolio included 356 securities having an aggregate fair value of \$158.2 million that were in a loss position at September 30, 2024. Securities identified as temporarily impaired which had been in a loss position for 12 months or longer totaled \$152.0 million at fair value at September 30, 2024. The \$ 25.3 million aggregate unrealized loss included in accumulated other comprehensive loss at September 30, 2024 was caused by interest rate fluctuations.

The decline in fair value is attributable to changes in interest rates and not credit quality. In the absence of changes in credit quality of these investments, the fair value is expected to recover on all debt securities as they approach their maturity date or re-pricing date, or if market yields for such investments decline. The Company does not have the intent to sell these investments over the period of recovery, and it is not more likely than not that the Company will be required to sell such investment securities.

## (5) Intangible Assets

### *Mortgage Servicing Rights*

On January 31, 2024, the Company sold its mortgage servicing rights portfolio and all serviced loans transferred to the new servicer on April 30, 2024.

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The table below presents changes in mortgage servicing rights (MSRs) for the periods indicated.

(dollars in thousands)	Nine Months Ended September 30,	
	2024	2023
<b>Balance at beginning of period</b>	\$ 1,738	\$ 2,899
Originated mortgage servicing rights	—	38
Sale proceeds	(1,670)	—
Changes in fair value:		
Due to changes in model inputs and assumptions (1)	—	145
Other changes in fair value (2)	(68)	(197)
Total changes in fair value	(68)	(52)
<b>Balance at end of period</b>	\$ —	\$ 2,885

- (1) The change in fair value resulting from changes in valuation inputs or assumptions, reported in real estate servicing fees, net, used in the valuation model reflects the change in discount rates and prepayment speed assumptions primarily due to changes in interest rates.
- (2) Other changes in fair value, reported in real estate servicing fees, net, reflect changes due to customer payments and passage of time.

Total changes in fair value are reported in real estate servicing fees, net, reported in non-interest income in the Company's consolidated statements of income. In the fourth quarter of 2023, the Company recognized a \$1.1 million mortgage MSR valuation write-down upon accepting a letter of intent to sell the Company's servicing portfolio, which closed during the first quarter of 2024. Prior to the fourth quarter of 2023, valuation assumptions were reviewed with a third party specialist. The following key data and assumptions were used in estimating the fair value of the Company's MSRs for the periods indicated as of September 30, 2023:

	Nine Months Ended September 30,	
	2024	2023
Weighted average constant prepayment rate	NA	6.51 %
Weighted average note rate	NA	3.49 %
Weighted average discount rate	NA	11.00 %
Weighted average expected life (in years)	NA	7.14

#### (6) Deposits

The table below presents the aggregate amount of time deposits with balances that met or exceeded the Federal Deposit Insurance Corporation ("FDIC") insurance limit of \$250,000 and brokered deposits for the periods indicated.

(dollars in thousands)	September 30, 2024	December 31, 2023
Time deposits with balances > \$250,000	\$ 97,776	\$ 108,147
Brokered deposits	\$ 10	\$ 161

#### (7) Leases

The Company's leases primarily consist of office space and bank branches with remaining lease terms of generally 1 to 10 years. As of September 30, 2024, operating right of use (ROU) assets and liabilities were \$1.7 million and \$1.8 million, respectively. As of September 30, 2024, the weighted-average remaining lease term on these operating leases was approximately 5.9 years and the weighted-average discount rate used to measure the lease liabilities was approximately 4.1%.

Operating leases in which the Company is the lessee are recorded as operating lease ROU assets and operating lease liabilities. Currently, the Company does not have any finance leases. The ROU assets are included in premises and equipment, net on the consolidated balance sheets.

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Operating lease ROU assets represent the Company's right to use an underlying asset during the lease term and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the lease commencement date.

Operating lease cost, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in net occupancy expense in the consolidated statements of income. The operating lease cost was \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2024, respectively, compared to \$ 0.1 million and \$0.3 million for the three and nine months ended September 30, 2023, respectively.

The table below summarizes the maturity of remaining operating lease liabilities:

Lease payments due in:	Operating Lease
<i>(dollars in thousands)</i>	
2024 remaining	\$ 97
2025	391
2026	400
2027	327
2028	330
Thereafter	438
Total lease payments	\$ 1,983
Less imputed interest	(225)
Total lease liabilities, as reported	\$ 1,758

**(8) Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)**

*Accumulated Other Comprehensive Income (Loss)*

The following table summarizes the change in the components of the Company's accumulated other comprehensive income (loss) for the nine months ended September 30, 2024 and 2023:

	Nine Months Ended September 30, 2024		
	Unrealized Gains (Losses) on Securities (1)	Unrecognized Net Pension and Postretirement Costs (2)	Accumulated Other Comprehensive Income (Loss)
<i>(dollars in thousands)</i>			
Balance at beginning of period	\$ (21,461)	\$ 7,699	\$ (13,762)
Other comprehensive income (loss), before reclassifications	2,501	(518)	1,983
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Current period other comprehensive income (loss), before tax	2,501	(518)	1,983
Income tax (expense) benefit	(525)	109	(416)
Current period other comprehensive income (loss), net of tax	1,976	(409)	1,567
Balance at end of period	\$ (19,485)	\$ 7,290	\$ (12,195)

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	Nine Months Ended September 30, 2023		
	Unrealized Gains (Losses) on Securities (1)	Unrecognized Net Pension and Postretirement Costs (2)	Accumulated Other Comprehensive Income (Loss)
<i>(dollars in thousands)</i>			
<b>Balance at beginning of period</b>	\$ (36,657)	\$ 4,943	\$ (31,714)
Other comprehensive income (loss), before reclassifications	(10,061)	(480)	(10,541)
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Current period other comprehensive income (loss), before tax	(10,061)	(480)	(10,541)
Income tax (expense) benefit	2,113	101	2,214
Current period other comprehensive income (loss), net of tax	(7,948)	(379)	(8,327)
<b>Balance at end of period</b>	\$ (44,605)	\$ 4,564	\$ (40,041)

- (1) The pre-tax amounts reclassified from accumulated other comprehensive income (loss) are included in investment securities gains (losses), net in the consolidated statements of income.
- (2) The pre-tax amounts reclassified from accumulated other comprehensive income (loss) are included in the computation of net periodic pension cost.

## (9) Share-Based Compensation

### Equity-Based Compensation Plan

At the 2023 Annual Meeting of Shareholders, held on June 6, 2023, the Company's shareholders approved the Hawthorn Bancshares, Inc. Equity Incentive Plan (the Equity Plan), which was previously approved by the Company's Board of Directors. The purpose of the Equity Plan is to allow eligible participants of the Company and its subsidiaries to acquire or increase a proprietary and vested interest in the growth and performance of the Company. The Equity Plan is also designed to assist the Company in attracting and retaining selected service providers by providing them with the opportunity to participate in the success and profitability of the Company. The terms of the Equity Plan provide for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, other equity-based awards and cash awards. Subject to certain adjustments, the maximum number of shares of the Company's common stock that may be delivered pursuant to awards under the Equity Plan is 203,000 shares. Eligible participants under the Equity Plan include all employees, non-employee directors and consultants of the Company or its subsidiaries. The Equity Plan is currently administered by the Compensation Committee of the Board of Directors.

The Compensation Committee adopted a form of restricted stock unit award agreement (service-based vesting). The Company issues restricted share units (RSUs) to provide additional incentives to key officers, employees, and non-employee directors. Awards are granted as determined by the Compensation Committee. The service-based RSUs vest, and shares of common stock are issued, in equal installments on the first, second, and third anniversaries of the date of grant.

The following table summarizes the status of the Company's RSUs for the nine months ended September 30, 2024:

	RSUs	
	Quantity	Weighted-Average Grant Date Fair Value Per share
<i>(dollars in thousands, except per share amounts)</i>		
<b>Non-vested at January 1, 2024</b>	18,277	\$ 20.63
Granted	11,151	20.18
Vested	(4,092)	19.80
Forfeited	—	—
<b>Non-vested at September 30, 2024</b>	25,336	\$ 20.20

The fair value of the RSUs units is determined using the Company's stock price on the date of grant. Total share-based compensation expense recognized for the three and nine months ended September 30, 2024 for these RSUs was \$0.05 million and \$0.1 million, respectively. No share-based compensation expense was recognized for the three and nine months ended September 30, 2023. Forfeitures will be recognized as they occur.

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At September 30, 2024, there was \$0.4 million of total unrecognized compensation expense related to RSUs that is expected to be recognized over a weighted-average period of 2.2 years.

**(10) Employee Benefit Plans**

*Employee Benefits*

Employee benefits charged to operating expenses are summarized in the table below for the periods indicated.

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Payroll taxes	\$ 361	\$ 374	\$ 1,188	\$ 1,228
Medical plans	399	505	1,235	1,400
401(k) match and profit sharing	310	250	931	761
Periodic pension cost	264	265	792	796
Other	90	11	91	30
<b>Total employee benefits</b>	<b>\$ 1,424</b>	<b>\$ 1,405</b>	<b>\$ 4,237</b>	<b>\$ 4,215</b>

The Company's profit-sharing plan includes a matching 401(k) portion, in which the Company matches the first 3% of eligible employee contributions. The Company made annual contributions for the discretionary portion in an amount up to 6% of income before income taxes and before contributions to the profit-sharing and pension plans for all participants, limited to the maximum amount deductible for federal income tax purposes, for each of the periods shown. In addition, employees were able to make additional tax-deferred contributions.

*Other Plans*

On November 7, 2018, the Board of Directors of the Company adopted a supplemental executive retirement plan (SERP), effective as of January 1, 2018. The SERP provides select employees who satisfy certain eligibility requirements with certain benefits upon retirement, termination of employment or death.

The accrued liability relating to the SERP was \$1.7 million as of September 30, 2024, and the expense for the three and nine months ended September 30, 2024 was \$0.02 million and \$0.07 million, respectively, compared to \$0.01 million and \$0.02 million for the three and nine months ended September 30, 2023, respectively, and is recognized over the required service period.

*Pension*

The Company provides a noncontributory defined benefit pension plan for all full-time and eligible employees. Beginning January 1, 2018 and for all retrospective periods presented, the Company adopted the guidance under ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Under the guidance, only the service cost component of the net periodic benefit cost is reported in the same income statement line item as salaries and benefits, and the remaining components are reported as other non-interest expense. An employer is required to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Under the Company's funding policy for the defined benefit pension plan, contributions are made to a trust as necessary to provide for current service and for any unfunded accrued actuarial liabilities over a reasonable period. To the extent that these requirements are fully covered by assets in the trust, a contribution might not be made in a particular year.

Effective July 1, 2017, the Company amended the pension plan to effectuate a "soft freeze" such that no individual hired (or rehired in the case of a former employee) by the Company after September 30, 2017, whether or not such individual is or was a vested member in the plan, will be eligible to be an active member and be entitled to accrue any benefits under the plan.



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*Components of Net Pension Cost (Income) and Other Amounts Recognized in Accumulated Other Comprehensive Income (Loss)*

The following items are components of net pension cost (income) for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands)</i>				
Service cost - benefits earned during the year	\$ 236	\$ 237	\$ 710	\$ 710
Interest costs on projected benefit obligations (a)	370	357	1,108	1,071
Expected return on plan assets (a)	(590)	(544)	(1,769)	(1,634)
Expected administrative expenses	28	28	82	86
Amortization of unrecognized net gain (a)	(173)	(160)	(518)	(480)
<b>Net periodic pension income</b>	<b>\$ (129)</b>	<b>\$ (82)</b>	<b>\$ (387)</b>	<b>\$ (247)</b>

(a) The components of net periodic pension cost (income) other than the service cost and expected administrative expenses are included in other non-interest income.

Net periodic pension benefit costs (income) include interest costs based on an assumed discount rate, the expected return on plan assets based on actuarially derived market-related values, and the amortization of net actuarial (gains) losses. Net periodic postretirement benefit costs include service costs, interest costs based on an assumed discount rate, and the amortization of prior service credits and net actuarial gains. Differences between expected and actual results in each year are included in the net actuarial gain or loss amount, which is recognized in other comprehensive (loss) income. The net actuarial gain or loss in excess of a 10% corridor is amortized in net periodic benefit cost over the average remaining service period of active participants in the pension plan. The prior service credit is amortized over the average remaining service period to full eligibility for participating employees expected to receive benefits. Currently, there is no prior service cost or net transition (asset)/obligation to be amortized.

**(11) Earnings per Share**

Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share gives effect to all dilutive potential shares that were outstanding during the period.

Presented below is a summary of the components used to calculate basic and diluted earnings per common share, which have been restated for all stock dividends:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands, except per share data)</i>				
<b>Basic and Diluted Earnings Per Share:</b>				
Net income available to shareholders	\$ 4,574	\$ 2,579	\$ 13,659	\$ 8,399
Basic weighted-average shares outstanding	6,986,723	7,039,323	7,004,883	7,039,323
Effect of dilutive equity-based awards	—	—	—	—
Diluted weighted-average shares outstanding	6,986,723	7,039,323	7,004,883	7,039,323
<b>Basic earnings per share</b>	<b>\$ 0.66</b>	<b>\$ 0.36</b>	<b>\$ 1.95</b>	<b>\$ 1.19</b>
<b>Diluted earnings per share</b>	<b>\$ 0.66</b>	<b>\$ 0.36</b>	<b>\$ 1.95</b>	<b>\$ 1.19</b>

The dilutive effect of RSUs is reflected in diluted earnings per share unless the impact is anti-dilutive, by application of the treasury stock method.

*Repurchase Program*

Pursuant to the Company's 2019 Repurchase Plan, management is given discretion to determine the number and pricing of the shares to be repurchased, as well as the timing of any such repurchases. The Company repurchased 56,692 common

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shares under the repurchase plan during the first nine months of 2024 at an average cost of \$ 19.51 per share totaling \$1.1 million. As of September 30, 2024, \$3.9 million remained available for share repurchases pursuant to the plan.

**(12) Fair Value Measurements**

Fair value represents the amount expected to be received to sell an asset or paid to transfer a liability in its principal or most advantageous market in an orderly transaction between market participants at the measurement date.

Depending on the nature of the asset or liability, the Company uses various valuation methodologies and assumptions to estimate fair value. The measurement of fair value under U.S. GAAP uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows.

The fair value hierarchy is as follows:

Level 1 – Inputs are unadjusted quoted prices for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs for the asset or liability and significant to the fair value. These may be internally developed using the Company's best information and assumptions that a market participant would consider.

In accordance with fair value accounting guidance, the Company measures, records, and reports various types of assets and liabilities at fair value on either a recurring or non-recurring basis in the consolidated financial statements. Nonfinancial assets measured at fair value on a non-recurring basis would include foreclosed real estate, long-lived assets, and core deposit intangible assets, which are reviewed when circumstances or other events indicate that impairment may have occurred.

***Valuation Methods for Assets and Liabilities Measured at Fair Value on a Recurring Basis***

Following is a description of the Company's valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

***Available-for-Sale Securities***

The fair value measurements of the Company's investment securities are determined by a third party pricing service that considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. The fair value measurements are subject to management's independent verification to another pricing source for reasonableness each quarter.

***Other Investment Securities***

Other investment securities include equity securities with readily determinable fair values and other investment securities that do not have readily determinable fair values. Investments in FHLB stock and MIB stock, that do not have readily determinable fair values, are required for membership in those organizations. Equity securities that are not actively traded are classified in Level 2.

Equity securities with readily determinable fair values are recorded at fair value, with changes in fair value reflected in earnings. Equity securities that do not have readily determinable fair values are carried at cost and are periodically

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assessed for impairment. The Company uses Level 1 inputs to value equity securities that are traded in active markets.

*Loans Held for Sale*

The fair value of the commitment in forward sale agreements loans is the price at which they could be sold in the principal market at the measurement date, therefore the Company classifies these loans as Level 2.

*Derivative Assets and Liabilities*

Derivative assets and liabilities include interest rate lock commitments (IRLCs) and forward sale commitments. The fair values of IRLCs and forward sale commitments are determined using readily observable market data such as interest rates, prices, volatility factors, and customer credit-related adjustments. For IRLCs, the fair value is subject to the anticipated loan funding probability (pull-through rate), which is considered an unobservable factor. Factors that affect pull-through rates include origination channel, current mortgage interest rates in the market versus the interest rate incorporated in the IRLC, the purpose of the mortgage, stage of completion of the underlying application and underwriting process, and the time remaining until the IRLC expires. The Company classifies IRLCs as Level 3 due to the unobservable input of pull-through rates. As of September 30, 2024, the Company elected not to record the derivatives associated with IRLC due to the reduced volume of loans sold to the secondary market and therefore immateriality of the derivative.

*Mortgage Servicing Rights (MSRs)*

The Company sold its servicing portfolio on January 31, 2024. In prior periods, the fair value of MSRs is based on the discounted value of estimated future cash flows utilizing contractual cash flows, servicing rate, constant prepayment rate, servicing cost, and discount rate factors. Accordingly, the fair value is estimated based on a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, market discount rates, cost to service, float earnings rates, and other ancillary income, including late fees. The valuation models estimate the present value of estimated future net servicing income. The Company classifies its MSRs as Level 3.

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		Quoted Prices in Active Markets for Identical Assets (Level 1)		Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)	Fair Value				
September 30, 2024					
Assets:					
U.S. government and federal agency obligations	\$ 400	\$ —	\$ 400	\$ —	
U.S. government-sponsored enterprises	12,959	—	12,959	—	
Obligations of states and political subdivisions	106,773	—	106,773	—	
Mortgage-backed securities	63,336	—	63,336	—	
Other debt securities	18,612	—	18,612	—	
Bank-issued trust preferred securities	1,212	—	1,212	—	
Equity securities	72	72	—	—	
Loans held for sale	315	—	315	—	
Total	\$ 203,679	\$ 72	\$ 203,607	\$ —	
December 31, 2023					
Assets:					
U.S. Treasury	\$ 1,978	\$ 1,978	\$ —	\$ —	
U.S. government and federal agency obligations	427	—	427	—	
U.S. government-sponsored enterprises	21,822	—	21,822	—	
Obligations of states and political subdivisions	106,885	—	106,885	—	
Mortgage-backed securities	45,640	—	45,640	—	
Other debt securities	10,821	—	10,821	—	
Bank-issued trust preferred securities	1,169	—	1,169	—	
Equity securities	78	78	—	—	
Interest rate lock commitments	43	—	—	43	
Loans held for sale	3,884	—	3,884	—	
Mortgage servicing rights	1,738	—	—	1,738	
Total	\$ 194,485	\$ 2,056	\$ 190,648	\$ 1,781	
Liabilities:					
Interest rate lock commitments	\$ 2	\$ —	\$ —	\$ 2	
Forward sale commitments	41	—	41	—	
Total	\$ 43	\$ —	\$ 41	\$ 2	

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The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Mortgage Servicing Rights		Interest Rate Lock Commitments	
	Nine Months Ended September 30,			
(dollars in thousands)	2024	2023	2024	2023
Balance at beginning of period	\$ 1,738	\$ 2,899	\$ 41	\$ 2
Total gains or (losses) (realized/unrealized):				
Included in earnings	(68)	(52)	(11)	(31)
Included in other comprehensive income	—	—	—	—
Purchases	—	—	—	—
Sales	(1,670)	—	(86)	(125)
Issues	—	38	56	197
Balance at end of period	\$ —	\$ 2,885	\$ —	\$ 43

**Valuation Methods for Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

Following is a description of the Company's valuation methodologies used for assets and liabilities recorded at fair value on a non-recurring basis:

*Collateral Dependent Impaired Loans*

While the overall loan portfolio is not carried at fair value, the Company periodically records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments also include certain impairment amounts for collateral dependent loans when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In determining the value of real estate collateral, the Company relies on external and internal appraisals of property values depending on the size and complexity of the real estate collateral. The Company maintains staff trained to perform in-house evaluations and also to review third-party appraisal reports for reasonableness. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists. Values of all loan collateral are regularly reviewed by a senior loan committee. Because many of these inputs are not observable, the measurements are classified as Level 3. As of September 30, 2024, the Company identified \$1.8 million in collateral-dependent loans that required a \$0.3 million specific allowance for credit losses. Related to these loans, there were \$ 0.4 million and \$2.3 million in charge-offs recorded during the three and nine months ended September 30, 2024, respectively. As of September 30, 2023, the Company identified \$2.6 million in collateral-dependent loans that required a \$0.02 million specific allowance for credit losses. Related to these loans, there were \$ 3,000 and \$0.03 million in charge-offs recorded during the three and nine months ended September 30, 2023, respectively.

*Other Real Estate and Foreclosed Assets*

Other real estate owned (OREO) and foreclosed assets consisted of loan collateral repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including autos, manufactured homes, and construction equipment. Subsequent to foreclosure, these assets are initially carried at fair value of the collateral less estimated selling costs. Fair value, when recorded, is generally based upon appraisals by approved, independent state-certified appraisers. Like impaired loans, appraisals on OREO may be discounted based on the Company's historical knowledge, changes in market conditions from the time of appraisal or other information available. During the holding period, valuations are updated periodically, and the assets may be written down to reflect a new cost basis. Because many of these inputs are not observable, the measurements are classified as Level 3.

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	Fair Value Measurements Using					
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Three Months Ended September 30, Total Gains (Losses)*	Nine Months Ended September 30, Total Gains (Losses)*
<i>(dollars in thousands)</i>						
<b>September 30, 2024</b>						
<b>Assets:</b>						
<b>Collateral dependent impaired loans:</b>						
Commercial, financial, & agricultural	\$ 1,116	—	—	\$ 1,116	\$ (30)	\$ (1,865)
Real estate construction – residential	260	—	—	260	—	—
Real estate mortgage - residential	—	—	—	—	—	(22)
Real estate mortgage - commercial	65	—	—	65	(344)	(433)
Total	\$ 1,441	\$ —	\$ —	\$ 1,441	\$ (374)	\$ (2,320)
Other real estate and repossessed assets	\$ 4,385	\$ —	\$ —	\$ 4,385	\$ 262	\$ 742
<b>September 30, 2023</b>						
<b>Assets:</b>						
<b>Collateral dependent impaired loans:</b>						
Real estate mortgage - residential	\$ 120	\$ —	\$ —	\$ 120	\$ —	\$ —
Real estate mortgage - commercial	2,432	—	—	2,432	(2)	(26)
Total	\$ 2,552	\$ —	\$ —	\$ 2,552	\$ (2)	\$ (26)
Other real estate and repossessed assets	\$ 3,564	\$ —	\$ —	\$ 3,564	\$ (2,811)	\$ (4,594)

\* Total gains (losses) reported for other real estate and foreclosed assets include charge-offs, valuation write downs, and net losses taken during the periods reported.

### (13) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

#### **Loans**

Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as commercial, real estate, and consumer. Each loan category is further segmented into fixed and variable interest rate categories. The fair value of loans, or exit price, is estimated by using the future value of discounted cash flows using comparable market rates for similar types of loan products and adjusted for market factors. The discount rates used are estimated using comparable market rates for similar types of loan products adjusted to be commensurate with the credit risk, overhead costs, and optionality of such instruments.

#### **Federal funds Sold, Cash, and Due from Banks**

The carrying amounts of short-term federal funds sold, interest-earning deposits with banks, and cash and due from banks approximate fair value. Federal funds sold classified as short-term generally mature in 90 days or less.

#### **Certificates of Deposit in Other Banks**

Certificates of deposit are other investments made by the Company with other financial institutions that are carried at cost; which is equal to fair value.

#### **Accrued Interest Receivable and Payable**

For accrued interest receivable and payable, the carrying amount is a reasonable estimate of fair value because of the short maturity for these financial instruments.

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**Deposits**

The fair value of deposits with no stated maturity, such as non-interest-bearing demand, NOW accounts, savings, and money market, is equal to the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

**Federal funds Purchased and Securities Sold Under Agreements to Repurchase**

For Federal funds purchased and securities sold under agreements to repurchase, the carrying amount is a reasonable estimate of fair value, as such instruments reprice in a short time period.

**Subordinated Notes and Other Borrowings**

The fair value of subordinated notes and other borrowings is based on the discounted value of contractual cash-flows. The discount rate is estimated using the rates currently offered for other borrowed money of similar remaining maturities.

A summary of the carrying amounts and fair values of the Company's financial instruments at September 30, 2024 and December 31, 2023 is as follows:

	September 30, 2024				
	Fair Value Measurements				
	September 30, 2024		Quoted Prices in Active Markets for Identical Assets	Other Observable Inputs	Net Significant Unobservable Inputs
	Carrying amount	Fair value	(Level 1)	(Level 2)	(Level 3)
<i>(dollars in thousands)</i>					
<b>Assets:</b>					
Cash and due from banks	\$ 19,411	\$ 19,411	\$ 19,411	\$ —	\$ —
Federal funds sold and overnight interest-bearing deposits	34,813	34,813	34,813	—	—
Certificates of deposit in other banks	1,000	1,000	1,000	—	—
Available-for-sale securities	203,292	203,292	—	203,292	—
Other investment securities	5,727	5,727	72	5,655	—
Loans, net	1,444,814	1,352,128	—	—	1,352,128
Loans held for sale	315	315	—	315	—
Accrued interest receivable	8,284	8,284	8,284	—	—
<b>Liabilities:</b>					
<b>Deposits:</b>					
Non-interest bearing demand	\$ 390,639	\$ 390,639	\$ 390,639	\$ —	\$ —
Savings, interest checking and money market	811,954	811,954	811,954	—	—
Time deposits	300,911	299,856	—	—	299,856
FHLB advances and other borrowings	96,525	96,924	100	96,824	—
Subordinated notes	49,486	40,365	—	40,365	—
Accrued interest payable	1,755	1,755	1,755	—	—

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	December 31, 2023				
			Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets	Other Observable Inputs	Net Significant Unobservable Inputs
	December 31, 2023				
(dollars in thousands)	Carrying amount	Fair value	(Level 1)	(Level 2)	(Level 3)
<b>Assets:</b>					
Cash and due from banks	\$ 15,675	\$ 15,675	\$ 15,675	\$ —	\$ —
Federal funds sold and overnight interest-bearing deposits	77,775	77,775	77,775	—	—
Available-for-sale securities	188,742	188,742	1,978	186,764	—
Other investment securities	6,300	6,300	78	6,222	—
Loans, net	1,515,403	1,364,533	—	—	1,364,533
Loans held for sale	3,884	3,884	—	3,884	—
Interest rate lock commitments	43	43	—	—	43
Accrued interest receivable	8,661	8,661	8,661	—	—
<b>Liabilities:</b>					
<b>Deposits:</b>					
Non-interest bearing demand	\$ 402,241	\$ 402,241	\$ 402,241	\$ —	\$ —
Savings, interest checking and money market	846,452	846,452	846,452	—	—
Time deposits	322,151	319,929	—	—	319,929
FHLB advances and other borrowings	107,000	107,245	—	107,245	—
Subordinated notes	49,486	38,939	—	38,939	—
Interest rate lock commitments	2	2	—	—	2
Forward sale commitments	41	41	—	41	—
Accrued interest payable	1,772	1,772	1,772	—	—

**Off-Balance Sheet Financial Instruments**

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counterparties drawing on such financial instruments, and the present creditworthiness of such counterparties. The Company believes such commitments have been made on terms that are competitive in the markets in which it operates.

**Limitations**

The fair value estimates provided are made at a point in time based on market information and information about the financial instruments. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the fair value estimates.

**(14) Commitments and Contingencies**

The Company issues financial instruments with off-balance-sheet risk in the normal course of business of meeting the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Company's extent of involvement and maximum potential exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by



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the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for financial instruments included on its consolidated balance sheets.

The allowance for credit losses associated with unfunded commitments and letters of credit is recorded within other liabilities on the consolidated balance sheets. At September 30, 2024, the allowance for credit losses for unfunded commitments was \$0.8 million.

The contractual amounts of off-balance-sheet financial instruments were as follows as of the dates indicated:

<i>(dollars in thousands)</i>	<b>September 30, 2024</b>		<b>December 31, 2023</b>	
Commitments to extend credit	\$	287,223	\$	286,939
Interest rate lock commitments		—		3,694
Forward sale commitments		315		3,779
Standby letters of credit		47,468		111,631
<b>Total</b>	<b>\$</b>	<b>335,006</b>	<b>\$</b>	<b>406,043</b>

**Commitments**

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments and letters of credit are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, furniture and equipment, and real estate.

The Company has two types of commitments related to mortgage loans held for sale: interest rate lock commitments and forward loan sale commitments. Interest rate lock commitments are commitments to extend credit to a customer that has an interest rate lock and are considered derivative instruments. As of September 30, 2024, the Company elected not to record the derivatives associated with IRLCs due to the reduced volume of loans sold to the secondary market.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. These standby letters of credit are primarily issued to support contractual obligations of the Company's customers. The approximate remaining term of standby letters of credit ranged from one month to five years at September 30, 2024.

**Pending Litigation**

The Company and its subsidiaries are defendants in various legal actions incidental to the Company's past and current business activities. Based on the Company's analysis, and considering the inherent uncertainties associated with litigation, management does not believe that it is reasonably possible that these legal actions will materially adversely affect the Company's consolidated financial condition or results of operations in the near term. The Company records a loss accrual for all legal matters for which it deems a loss is probable and can be reasonably estimated. Some legal matters, which are at early stages in the legal process, have not yet progressed to the point where a loss is deemed probable or an amount can be estimated.

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

### Forward-Looking Statements

This report contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, strategy, future performance and business of Hawthorn Bancshares, Inc., and its subsidiaries (collectively, the "Company", "we", "our", or "us"), including, without limitation:

- statements that are not historical in nature, and
- statements preceded by, followed by or that include the words *believes, expects, may, will, should, could, anticipates, estimates, intends, plans, hopes* or similar expressions.

Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- competitive pressures among financial services companies may increase significantly,
- changes in the interest rate environment may reduce interest margins,
- general economic conditions, either nationally or in Missouri, may be less favorable than expected and may adversely affect the quality of our loans and other assets,
- increases in non-performing assets in the Company's loan portfolios and adverse economic conditions may necessitate increases to our provisions for credit losses,
- costs or difficulties related to any integration of any business of the Company and its acquisition targets may be greater than expected,
- legislative, regulatory or tax law changes may adversely affect the business in which the Company and its subsidiaries are engaged,
- credit and market risks relating to increasing inflation,
- economic or other disruptions caused by acts of terrorism, war or other conflicts, including the Russia-Ukraine conflict, and the Israel-Hamas conflict, natural disasters, such as hurricanes, freezes, flooding and other man-made disasters, such as oil spills or power outages, health emergencies, epidemics or pandemics, climate changes or other catastrophic events,
- changes may occur in the securities markets,
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for credit losses, and
- technological changes, including potential cyber-security incidents and other disruptions, or innovations to the financial services industry, including as a result of the increased telework environment.

The Company has described additional factors that could cause actual results to be materially different from those described in the forward-looking statements under the caption *Risk Factors* in Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K"), and in other reports filed by us with the Securities and Exchange Commission ("SEC") from time to time. Other factors that have not been identified in this report could also have this effect. You are cautioned not to put undue reliance on any forward-looking statement, which speak only as of the date they were made. Except as required by law, the Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes in its business, results of operations or financial condition over time.

## Overview

Crucial to the Company's community banking strategy is growth in its commercial banking services, retail mortgage lending and retail banking services. Through the branch network of its subsidiary bank, Hawthorn Bank (the "Bank"), the Company, with \$1.8 billion in assets at September 30, 2024, provides a broad range of commercial and personal banking services. The Bank's specialties include commercial banking for small and mid-sized businesses, including equipment, operating, commercial real estate, Small Business Administration loans, a comprehensive suite of cash management services, and personal banking services including real estate mortgage lending, installment and consumer loans, certificates of deposit, individual retirement and other time deposit accounts, checking accounts, savings accounts, and money market accounts. Other financial services that the Company provides include trust services that include estate planning, investment and asset management services. The geographic areas in which the Company provides products and services include the Missouri communities in and surrounding Jefferson City, Columbia, Clinton, Warsaw, Springfield, and the greater Kansas City metropolitan area.

The Company's primary source of revenue is net interest income derived primarily from lending and deposit taking activities. Much of the Company's business is commercial, commercial real estate development, and residential mortgage lending. The Company's income from mortgage brokerage activities is directly dependent on mortgage rates and the level of home purchases and refinancing activity.

The success of the Company's growth strategy depends primarily on the ability of the Bank to generate an increasing level of loans and deposits at acceptable risk levels and on acceptable terms without significant increases in non-interest expenses relative to revenues generated. The Company's financial performance also depends, in part, on its ability to manage various portfolios and to successfully introduce additional financial products and services by expanding new and existing customer relationships, utilizing improved technology, and enhancing customer satisfaction. Furthermore, the success of the Company's growth strategy depends on its ability to maintain sufficient regulatory capital levels during periods in which general economic conditions are unfavorable and despite economic conditions being beyond its control.

The deposit accounts of the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law. The Bank is supervised and regulated by the FDIC and the Missouri Division of Finance. Regular examinations are conducted by representatives of these regulatory bodies. Such regulations, supervision and examinations are principally for the benefit of depositors, rather than for the benefit of shareholders. The Company is also subject to supervision and examination by the Board of Governors of the Federal Reserve System.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Certain accounting policies are considered most critical to the understanding of the Company's financial condition and results of operations. These critical accounting policies and estimates require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. Because these estimates and judgments are based on current circumstances, they may change over time or prove to be inaccurate based on actual experiences. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of a materially different financial condition and/or results of operations could reasonably be expected. The Company has identified certain accounting policies as "critical accounting policies and estimates," consisting of those related to the allowance for credit losses, as described in the section captioned "Critical Accounting Policies and Estimates" incorporated by reference in Item 7, Management's Discussion and Analysis of Financial Condition and results of Operations included in the 2023 Form 10-K. There have been no changes in the Company's application of critical accounting policies and estimates since December 31, 2023.

## Executive Summary

The Company has prepared all of the consolidated financial information in this report in accordance with United States (U.S.) generally accepted accounting principles ("U.S. GAAP") and the rules of the SEC. In preparing the consolidated financial statements in accordance with U.S. GAAP, the Company makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurances that actual results will not differ from those estimates.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands, except per share data)</i>				
Net interest income	\$ 14,327	\$ 15,147	\$ 43,246	\$ 43,297
Provision for credit losses on loans & unfunded commitments	500	110	726	790
Non-interest income	3,783	606	10,798	5,384
Investment securities gains (losses), net	8	3	(7)	18
Non-interest expense	11,994	12,569	36,603	37,772
<b>Income before income taxes</b>	<b>5,624</b>	<b>3,077</b>	<b>16,708</b>	<b>10,137</b>
Income tax expense	1,050	498	3,049	1,738
<b>Net income</b>	<b>\$ 4,574</b>	<b>\$ 2,579</b>	<b>\$ 13,659</b>	<b>\$ 8,399</b>
Basic earnings per share	\$ 0.66	\$ 0.36	\$ 1.95	\$ 1.19
Diluted earnings per share	\$ 0.66	\$ 0.36	\$ 1.95	\$ 1.19
Efficiency ratio (1)	66.23%	79.79%	67.73%	79.79%
Net interest margin (FTE)	3.36%	3.35%	3.36%	3.23%

(1) Efficiency ratio is calculated as non-interest expense as a percentage of revenue. Total revenue is calculated as net interest income plus non-interest income.

	As of and for the Three Months Ended		As of and for the Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands, except per share data)</i>				
<b>Key financial ratios</b>				
Book value per share (2)			\$ 20.91	\$ 16.82
Market price per share			\$ 25.03	\$ 16.25
Cash dividends paid on common stock	\$ 1,194	\$ 1,151	\$ 3,720	\$ 3,452
Return on total assets	1.00%	0.54%	1.00%	0.59%
Return on stockholders' equity	12.87%	8.05%	13.24%	8.73%
Average stockholders' equity to total assets	7.80%	6.73%	7.54%	6.78%
<b>Capital Ratios</b>				
Stockholders' equity to assets	8.09%	6.30%		
Total risk-based capital ratio	14.91%	14.20%		
Tier 1 risk-based capital ratio	13.66%	12.54%		
Common equity Tier 1 capital	10.53%	10.09%		
Tier 1 leverage ratio (1)	11.33%	10.43%		
<b>Asset Quality</b>				
Net loan charge-offs	\$ 636	\$ 74	\$ 2,682	\$ 34
Non-performing assets	\$ 8,451	\$ 7,411		
Classified assets	\$ 13,496	\$ 33,342		
Non-performing loans to total loans	0.28%	0.25%		
Non-performing assets to total loans	0.58%	0.48%		
Allowance for credit losses to total loans	1.50%	1.44%		

(1) Tier 1 leverage ratio is calculated by dividing Tier 1 capital by average total consolidated assets

(2) Book value per share is calculated using weighted average shares

### **Results of Operations Highlights:**

**Consolidated net income** of \$4.6 million, or \$0.66 per diluted share, for the third quarter ended September 30, 2024 increased \$2.0 million, or 77.4%, compared to \$2.6 million, or \$0.36 per diluted share, for the third quarter ended September 30, 2023. For the third quarter 2024, the return on average assets was 1.00%, the return on average stockholders' equity was 12.87%, and the efficiency ratio was 66.2%.

For the nine months ended September 30, 2024 consolidated net income increased \$5.3 million, or 62.6%, to \$13.7 million, or \$1.95 per diluted share, compared to \$8.4 million, or \$1.19 per diluted share, for the nine months ended September 30, 2023. For the nine months ended September 30, 2024, the return on average assets was 1.00%, the return on average stockholders' equity was 13.24%, and the efficiency ratio was 67.7%.

The Company continues to see a positive impact from focusing on the core business of the Bank and remains committed to expanding our products and services to the core customer base, while managing operating expenses.

**Net interest income** was \$14.3 million for the third quarter ended September 30, 2024 decreased \$0.8 million compared to and \$15.1 million for the third quarter ended September 30, 2023. Net interest margin, on a fully taxable equivalent basis ("FTE"), was 3.36% for the third quarter 2024, an increase from 3.35% for the third quarter 2023.

**Net interest income** was \$43.2 million for the nine months ended September 30, 2024 decreased \$0.1 million compared to \$43.3 million for the nine months ended September 30, 2023. Net interest margin, on a FTE basis, was 3.36% for the nine months ended September 30, 2024, an increase from 3.23% for the nine months ended September 30, 2023. The change to net interest margin on a fully taxable equivalent basis is discussed in greater detail under the *Average Balance Sheet Data* and *Rate and Volume Analysis* sections.

**Non-interest income** was \$3.8 million and \$10.8 million for the three and nine months ended September 30, 2024, respectively, compared to \$0.6 million and \$5.4 million for the three and nine months ended September 30, 2023, respectively. The increases were primarily due to earnings on bank-owned life insurance and the gain on sale of other real estate. These changes are discussed in greater detail under the *Non-interest Income and Expense* section.

**Non-interest expense** was \$12.0 million and \$36.6 million for the three and nine months ended September 30, 2024, respectively, compared to \$12.6 million and \$37.8 million for the three and nine months ended September 30, 2023, respectively. The decreases are primarily due to operating within a unified company culture, focusing on core business lines and improving operational efficiencies. These changes are discussed in greater detail under the *Non-interest Income and Expense* section.

### **Balance Sheet Highlights:**

**Cash and cash equivalents** – Cash and cash equivalents decreased \$39.2 million to \$54.2 million as of September 30, 2024 compared to \$93.4 million as of December 31, 2023 and increased \$26.4 million compared to \$27.9 million as of September 30, 2023. The Company purchased \$32.9 million securities and \$35.0 million in bank-owned life insurance during the nine months ended September 30, 2024. See the *Liquidity Management* section for further discussion.

**Loans** – Loans held for investment decreased \$72.4 million to \$1.47 billion as of September 30, 2024 compared to \$1.54 billion as of December 31, 2023 and decreased \$90.2 million compared to \$1.56 billion as of September 30, 2023. Normal amortizing payments, unscheduled payoffs and a weaker demand for loans have contributed to the variance.

**Asset quality** – Non-performing assets to total loans was 0.58% at September 30, 2024, compared to 0.53% and 0.48% at December 31, 2023 and September 30, 2023, respectively. Non-performing assets totaled \$8.5 million at September 30, 2024, compared to \$8.2 million and \$7.4 million at December 31, 2023 and September 30, 2023, respectively. The increase in non-performing assets in the current quarter is primarily due to a \$2.0 million commercial loan relationship moving to non-accrual status and a \$1.1 million commercial real estate loan that went to foreclosure during the current quarter.

In the third quarter 2024, the Company had net loan charge-offs of \$0.6 million, or 0.04% of average loans, compared to net loan charge-offs \$0.1 million, or 0.00% of average loans, in the prior year quarter. The charge-offs in the current

quarter primarily related to one commercial real estate loan and one commercial loan relationship that were adequately reserved for in the prior quarter.

The allowance for credit losses was \$21.9 million, or 1.50%, of loans outstanding at September 30, 2024 compared to \$23.7 million, or 1.54%, of loans outstanding at December 31, 2023, and \$22.5 million, or 1.44%, of loans outstanding at September 30, 2023. These changes are discussed in greater detail under the *Lending and Credit Management* section.

**Deposits** – Total deposits decreased \$67.3 million to \$1.50 billion as of September 30, 2024 compared to \$1.57 billion as of December 31, 2023, and decreased \$76.9 million compared to \$1.58 billion as of September 30, 2023. The decrease in deposits at September 30, 2024 as compared to December 31, 2023 was primarily a result of a decrease in public funds partially offset by an increase in savings accounts.

**Federal Home Loan Bank ("FHLB") advances and other borrowings** – Total FHLB advances and other borrowings decreased \$10.5 million to \$96.5 million as of September 30, 2024 compared to \$107.0 million as of December 31, 2023, and decreased \$15.5 million compared to \$112.0 million as of September 30, 2023

**Capital** – The Company maintains its "well capitalized" regulatory capital position. At September 30, 2024, capital ratios were as follows: total risk-based capital to risk-weighted assets 14.91%; tier 1 capital to risk-weighted assets 13.66%; tier 1 leverage 11.33%; and common equity to assets 8.09%.

#### **Average Balance Sheet Data**

**Net interest income** is the largest source of revenue resulting from the Company's lending, investing, borrowing, and deposit gathering activities. It is affected both by changes in the level of interest rates and changes in the amounts and mix of interest-earning assets and interest-bearing liabilities. The following table presents average balance sheet data, net interest income, average yields of earning assets, average costs of interest-bearing liabilities, net interest spread and net interest margin on a FTE basis for each of the three and nine month periods ended September 30, 2024 and 2023, respectively. The average balances used in this table and other statistical data were calculated using average daily balances.

Three Months Ended September 30,

	2024			2023		
	Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)
<i>(dollars in thousands)</i>						
<b>ASSETS</b>						
<b>Loans: (2)</b>						
Commercial	\$ 210,783	\$ 3,592	6.78%	\$ 232,516	\$ 3,761	6.42%
Real estate construction - residential	35,611	717	8.01	55,289	1,028	7.38
Real estate construction - commercial	61,546	1,269	8.20	129,284	1,899	5.83
Real estate mortgage - residential	369,068	5,235	5.64	376,209	5,185	5.47
Real estate mortgage - commercial	792,668	10,727	5.38	739,225	10,054	5.40
Installment and other consumer	15,977	235	5.85	22,176	279	4.99
<b>Total loans</b>	<b>\$ 1,485,653</b>	<b>\$ 21,775</b>	<b>5.83%</b>	<b>\$ 1,554,699</b>	<b>\$ 22,206</b>	<b>5.67%</b>
<b>Loans held for sale</b>	<b>610</b>	<b>13</b>	<b>8.48</b>	<b>6,351</b>	<b>59</b>	<b>3.69</b>
<b>Investment securities:</b>						
U.S. Treasury	—	—	—	4,861	52	4.24
U.S. government and federal agency obligations	13,218	140	4.21	25,498	103	1.60
Obligations of states and political subdivisions	103,790	745	2.86	108,022	814	2.99
Mortgage-backed securities	61,907	530	3.41	97,274	514	2.10
Other debt securities	13,335	191	5.70	11,566	176	6.04
<b>Total investment securities</b>	<b>\$ 192,250</b>	<b>\$ 1,606</b>	<b>3.32%</b>	<b>\$ 247,221</b>	<b>\$ 1,659</b>	<b>2.66%</b>
Other investment securities	5,844	141	9.60	7,713	121	6.22
Interest bearing deposits in other financial institutions	34,099	469	5.47	7,071	85	4.77
<b>Total interest earning assets</b>	<b>\$ 1,718,456</b>	<b>\$ 24,004</b>	<b>5.56%</b>	<b>\$ 1,823,055</b>	<b>\$ 24,130</b>	<b>5.25%</b>
All other assets	117,429			89,017		
Allowance for credit losses	(21,923)			(22,356)		
<b>Total assets</b>	<b>\$ 1,813,962</b>			<b>\$ 1,889,716</b>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Savings	\$ 273,470	\$ 1,612	2.35%	\$ 178,564	\$ 229	0.51%
NOW accounts	190,084	677	1.42	182,487	464	1.01
Interest checking	121,423	1,372	4.50	187,732	2,252	4.76
Money market	221,794	1,249	2.24	273,655	1,521	2.21
Time deposits	319,279	2,834	3.53	315,332	2,173	2.73
<b>Total interest bearing deposits</b>	<b>\$ 1,126,050</b>	<b>\$ 7,744</b>	<b>2.74%</b>	<b>\$ 1,137,770</b>	<b>\$ 6,639</b>	<b>2.32%</b>
Federal funds purchased and securities sold under agreements to repurchase	29	—	—	6,136	38	2.46
Federal Home Loan Bank advances and other borrowings	99,293	759	3.04	129,758	1,075	3.29
Subordinated notes	49,486	989	7.95	49,486	989	7.93
<b>Total borrowings</b>	<b>\$ 148,808</b>	<b>\$ 1,748</b>	<b>4.67%</b>	<b>\$ 185,380</b>	<b>\$ 2,102</b>	<b>4.50%</b>
<b>Total interest bearing liabilities</b>	<b>\$ 1,274,858</b>	<b>\$ 9,492</b>	<b>2.96%</b>	<b>\$ 1,323,150</b>	<b>\$ 8,741</b>	<b>2.62%</b>
Demand deposits	385,298			426,052		
Other liabilities	12,375			13,361		
<b>Total liabilities</b>	<b>\$ 1,672,531</b>			<b>\$ 1,762,563</b>		
Stockholders' equity	141,431			127,153		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,813,962</b>			<b>\$ 1,889,716</b>		
<b>Net interest income (FTE)</b>		<b>\$ 14,512</b>			<b>\$ 15,389</b>	
<b>Net interest spread (FTE)</b>			<b>2.59%</b>			<b>2.63%</b>
<b>Net interest margin (FTE)</b>			<b>3.36%</b>			<b>3.35%</b>

(1) Interest income and yields are presented on a FTE basis using the federal statutory income tax rate of 21%, net of nondeductible interest expense, for both the three months ended September 30, 2024 and 2023.

Such adjustments totaled \$0.19 million and \$0.24 million for the three months ended September 30, 2024 and 2023, respectively.

(2) Non-accruing loans are included in the average amounts outstanding.





**Nine Months Ended September 30, 2024**

	2024			2023		
	Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)
<i>(dollars in thousands)</i>						
<b>ASSETS</b>						
<b>Loans: (2)</b>						
Commercial	\$ 217,576	\$ 10,847	6.66%	\$ 231,691	\$ 10,702	6.18%
Real estate construction - residential	46,247	2,705	7.81	47,265	2,514	7.11
Real estate construction - commercial	70,452	3,788	7.18	137,776	5,586	5.42
Real estate mortgage - residential	371,072	15,716	5.66	368,702	14,524	5.27
Real estate mortgage - commercial	783,960	31,328	5.34	735,539	27,257	4.95
Installment and other consumer	17,916	780	5.82	22,622	763	4.51
<b>Total loans</b>	<b>\$ 1,507,223</b>	<b>\$ 65,164</b>	<b>5.78%</b>	<b>\$ 1,543,595</b>	<b>\$ 61,346</b>	<b>5.31%</b>
<b>Loans held for sale</b>	<b>1,841</b>	<b>80</b>	<b>5.80</b>	<b>3,837</b>	<b>119</b>	<b>4.15</b>
<b>Investment securities:</b>						
U.S. Treasury	656	26	5.29	4,391	133	4.05
U.S. government and federal agency obligations	14,994	502	4.47	25,406	305	1.61
Obligations of states and political subdivisions	103,687	2,256	2.91	109,994	2,587	3.14
Mortgage-backed securities	54,356	1,270	3.12	101,126	1,565	2.07
Other debt securities	12,640	550	5.81	11,826	520	5.88
<b>Total investment securities</b>	<b>\$ 186,333</b>	<b>\$ 4,604</b>	<b>3.30%</b>	<b>\$ 252,743</b>	<b>\$ 5,110</b>	<b>2.70%</b>
Other investment securities	6,126	428	9.33	7,015	321	6.12
Interest bearing deposits in other financial institutions	41,149	1,732	5.62	20,602	726	4.71
<b>Total interest earning assets</b>	<b>\$ 1,742,672</b>	<b>\$ 72,008</b>	<b>5.52%</b>	<b>\$ 1,827,792</b>	<b>\$ 67,622</b>	<b>4.95%</b>
All other assets	109,477			89,524		
Allowance for credit losses	(23,132)			(20,124)		
<b>Total assets</b>	<b>\$ 1,829,017</b>			<b>\$ 1,897,192</b>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Savings	\$ 249,594	\$ 3,912	2.09%	\$ 172,639	\$ 259	0.20%
NOW accounts	197,898	2,084	1.41	196,084	1,485	1.01
Interest checking	128,420	4,359	4.53	170,057	5,741	4.51
Money market	226,115	3,679	2.17	293,842	4,476	2.04
Time deposits	333,923	8,744	3.50	325,002	6,208	2.55
<b>Total interest bearing deposits</b>	<b>\$ 1,135,950</b>	<b>\$ 22,778</b>	<b>2.68%</b>	<b>\$ 1,157,624</b>	<b>\$ 18,169</b>	<b>2.10%</b>
Federal funds purchased and securities sold under agreements to repurchase	10	1	13.36	5,525	83	2.01
Federal Home Loan Bank advances and other borrowings	105,050	2,438	3.10	113,167	2,430	2.87
Subordinated notes	49,486	2,964	8.00	49,486	2,769	7.48
<b>Total borrowings</b>	<b>\$ 154,546</b>	<b>\$ 5,403</b>	<b>4.67%</b>	<b>\$ 168,178</b>	<b>\$ 5,282</b>	<b>4.20%</b>
<b>Total interest bearing liabilities</b>	<b>\$ 1,290,496</b>	<b>\$ 28,181</b>	<b>2.92%</b>	<b>\$ 1,325,802</b>	<b>\$ 23,451</b>	<b>2.36%</b>
Demand deposits	389,003			429,859		
Other liabilities	11,690			12,911		
<b>Total liabilities</b>	<b>\$ 1,691,189</b>			<b>\$ 1,768,572</b>		
Stockholders' equity	137,828			128,620		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,829,017</b>			<b>\$ 1,897,192</b>		
<b>Net interest income (FTE)</b>		<b>\$ 43,827</b>			<b>\$ 44,171</b>	
<b>Net interest spread (FTE)</b>			<b>2.60%</b>			<b>2.58%</b>
<b>Net interest margin (FTE)</b>			<b>3.36%</b>			<b>3.23%</b>

(1) Interest income and yields are presented on a FTE basis using the federal statutory income tax rate of 21%, net of nondeductible interest expense, for the nine months ended September 30, 2024 and 2023. Such adjustments totaled \$0.6 million and \$0.9 million for the nine months ended September 30, 2024 and 2023, respectively.

(2) Non-accruing loans are included in the average amounts outstanding.



## Rate and Volume Analysis

The following table summarizes the changes in net interest income on a FTE basis, by major category of interest earning assets and interest-bearing liabilities, identifying changes related to volumes and rates for the three and nine months ended September 30, 2024 compared to the three and nine months ending September 30, 2023, respectively. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024 vs. 2023			2024 vs. 2023		
	Change due to			Change due to		
(dollars in thousands)	Total Change	Average Volume	Average Rate	Total Change	Average Volume	Average Rate
<b>Interest income on a fully taxable equivalent basis: (1)</b>						
<b>Loans: (2)</b>						
Commercial	\$ (169)	\$ (363)	\$ 194	\$ 145	\$ (673)	\$ 818
Real estate construction - residential	(311)	(389)	78	191	(55)	246
Real estate construction - commercial	(630)	(1,219)	589	(1,798)	(3,255)	1,457
Real estate mortgage - residential	50	(99)	149	1,192	94	1,098
Real estate mortgage - commercial	673	721	(48)	4,071	1,854	2,217
Installment and other consumer	(44)	(86)	42	17	(178)	195
<b>Loans held for sale</b>	(46)	(82)	36	(39)	(76)	37
<b>Investment securities:</b>						
U.S. Treasury	(52)	(26)	(26)	(107)	(138)	31
U.S. government and federal agency obligations	37	(68)	105	197	(166)	363
Obligations of states and political subdivisions	(69)	(31)	(38)	(331)	(143)	(188)
Mortgage-backed securities	16	(229)	245	(295)	(897)	602
Other debt securities	15	26	(11)	30	35	(5)
Other investment securities	20	(34)	54	107	(45)	152
Interest bearing deposits in other financial institutions	384	369	15	1,006	840	166
<b>Total interest income</b>	\$ (126)	\$ (1,510)	\$ 1,384	\$ 4,386	\$ (2,803)	\$ 7,189
<b>Interest expense:</b>						
Savings	\$ 1,383	\$ 178	\$ 1,205	\$ 3,653	\$ 164	\$ 3,489
NOW accounts	213	20	193	599	14	585
Interest checking	(880)	(754)	(126)	(1,382)	(1,409)	27
Money market	(272)	(291)	19	(797)	(1,083)	286
Time deposits	661	27	634	2,536	174	2,362
Federal funds purchased and securities sold under agreements to repurchase	(38)	(19)	(19)	(82)	(153)	71
FHLB advances and other borrowings	(316)	(237)	(79)	8	(180)	188
Subordinated notes	—	—	—	195	—	195
<b>Total interest expense</b>	\$ 751	\$ (1,076)	\$ 1,827	\$ 4,730	\$ (2,473)	\$ 7,203
<b>Net interest income on a FTE basis</b>	\$ (877)	\$ (434)	\$ (443)	\$ (344)	\$ (330)	\$ (14)

(1) Interest income and yields are presented on a FTE basis using the federal statutory income tax rate of 21%, net of nondeductible interest expense, for the three and nine months ended September 30, 2024 and 2023, respectively. Such adjustments totaled \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2024, respectively, compared to \$0.2 million and \$0.9 million for the three and nine months ended September 30, 2023, respectively.

(2) Non-accruing loans are included in the average amounts outstanding.

Financial results for the quarter ended September 30, 2024 compared to the quarter ended September 30, 2023 reflected a decrease in net interest income, on a FTE basis, of \$0.9 million, or 5.7%, and financial results for the the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 reflected a decrease of \$0.3 million, or 0.8%. Measured as a percentage of average earning assets, the net interest margin (expressed on a FTE basis) increased to 3.36% for the quarter ended September 30, 2024 compared to 3.35% for the quarter ended September 30, 2023, and increased to 3.36% for the nine months ended September 30, 2024 compared to 3.23% for the nine months ended September 30, 2023.

Average interest-earning assets decreased \$104.6 million, or 5.7%, to \$1.72 billion for the quarter ended September 30, 2024 compared to \$1.82 billion for the quarter ended September 30, 2023, and average interest-bearing liabilities decreased \$48.3 million, or 3.6%, to \$1.27 billion for the quarter ended September 30, 2024 compared to \$1.32 billion for the quarter ended September 30, 2023.

Average interest-earning assets decreased \$85.1 million, or 4.7%, to \$1.74 billion for the nine months ended September 30, 2024 compared to \$1.83 billion for the nine months ended September 30, 2023, and average interest-bearing liabilities decreased \$35.3 million, or 2.7%, to \$1.29 billion for the nine months ended September 30, 2024 compared to \$1.33 billion for the nine months ended September 30, 2023.

**Total interest income** (expressed on a FTE basis) was \$24.0 million and \$72.0 million for the three and nine months ended September 30, 2024, respectively, compared to \$24.1 million and \$67.6 million for the three and nine months ended September 30, 2023, respectively. The Company's rates earned on interest earning assets were 5.56% and 5.52% for the three and nine months ended September 30, 2024, respectively, compared to 5.25% and 4.95% for the three and nine months ended September 30, 2023, respectively.

**Interest income on loans held for investment** was \$21.8 million and \$65.2 million for the three and nine months ended September 30, 2024, respectively, compared to \$22.2 million and \$61.3 million for the three and nine months ended September 30, 2023, respectively.

Average loans outstanding decreased \$69.0 million, or 4.4%, to \$1.49 billion for the quarter ended September 30, 2024 compared to \$1.55 billion for the quarter ended September 30, 2023. The average yield on loans increased to 5.83% for the quarter ended September 30, 2024 compared to 5.67% for the quarter ended September 30, 2023.

Average loans outstanding decreased \$36.4 million, or 2.4%, to \$1.51 billion for the nine months ended September 30, 2024 compared to \$1.54 billion for the nine months ended September 30, 2023. The average yield on loans increased to 5.78% for the nine months ended September 30, 2024 compared to 5.31% for the nine months ended September 30, 2023. See the *Lending and Credit Management* section for further discussion of changes in the composition of the lending portfolio.

**Interest income on available-for-sale securities** was \$1.6 million and \$4.6 million for the three and nine months ended September 30, 2024, respectively, compared to \$1.7 million and \$5.1 million for the three and nine months ended September 30, 2023, respectively.

Average securities decreased \$55.0 million, or 22.2%, to \$192.3 million for the quarter ended September 30, 2024 compared to \$247.2 million for the quarter ended September 30, 2023. The average yield on securities increased to 3.32% for the quarter ended September 30, 2024 compared to 2.66% for the quarter ended September 30, 2023.

Average securities decreased \$66.4 million, or 26.3%, to \$186.3 million for the nine months ended September 30, 2024 compared to \$252.7 million for the nine months ended September 30, 2023. The average yield on securities increased to 3.30% for the nine months ended September 30, 2024 compared to 2.70% for the nine months ended September 30, 2023. During the fourth quarter of 2023, the Company repositioned its balance sheet by selling \$83.7 million in book value of investment securities, with an average yield of 1.57%. See the *Liquidity Management* section for further discussion.

**Total interest expense** was \$9.5 million and \$28.2 million for the three and nine months ended September 30, 2024, respectively, compared to \$8.7 million and \$23.5 million for the three and nine months ended September 30, 2023, respectively. The Company's rates paid on interest bearing liabilities were 2.96% and 2.92% for the three and nine months ended September 30, 2024, respectively, compared to 2.62% and 2.36% for the three and nine months ended September 30, 2023, respectively. See the *Liquidity Management* section for further discussion.

**Interest expense on deposits** was \$7.7 million and \$22.8 million for the three and nine months ended September 30, 2024, respectively, compared to \$6.6 million and \$18.2 million for the three and nine months ended September 30, 2023, respectively.

Average interest-bearing deposits decreased \$11.7 million, or 1.0%, to \$1.13 billion for the quarter ended September 30, 2024 compared to \$1.14 billion for the quarter ended September 30, 2023. The average cost of deposits increased to 2.74% for the quarter ended September 30, 2024 compared to 2.32% for the quarter ended September 30, 2023.

Average interest-bearing deposits decreased \$21.7 million, or 1.9%, to \$1.14 billion for the nine months ended September 30, 2024 compared to \$1.16 billion for the nine months ended September 30, 2023. The average cost of deposits increased to 2.68% for the nine months ended September 30, 2024 compared to 2.10% for the nine months ended September 30, 2023.

**Interest expense on borrowings** was \$1.7 million and \$5.4 million for the three and nine months ended September 30, 2024, respectively, compared to \$2.1 million and \$5.3 million for the three and nine months ended September 30, 2023, respectively.

Average borrowings decreased \$36.6 million, or 19.7%, to \$148.8 million for the quarter ended September 30, 2024 compared to \$185.4 million for the quarter ended September 30, 2023. The average cost of borrowings increased to 4.67% for the quarter ended September 30, 2024 compared to 4.50% for the quarter ended September 30, 2023.

Average borrowings decreased \$13.6 million, or 8.1%, to \$154.5 million for the nine months ended September 30, 2024 compared to \$168.2 million for the nine months ended September 30, 2023. The average cost of borrowings increased to 4.67% for the nine months ended September 30, 2024 compared to 4.20% for the nine months ended September 30, 2023. The increase in average cost of borrowings primarily resulted from higher market interest rates.

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

**Non-interest income for the periods indicated was as follows:**

(dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024	2023	\$ Change	% Change	2024	2023	\$ Change	% Change
Service charges and other fees	\$ 870	\$ 760	\$ 110	14.5 %	\$ 2,464	\$ 2,180	\$ 284	13.0 %
Bank card income and fees	1,037	1,029	8	0.8 %	3,084	3,044	40	1.3 %
Earnings on bank-owned life insurance	520	14	506	NM	1,162	43	1,119	NM
Trust department income	341	283	58	20.5 %	960	820	140	17.1 %
Real estate servicing fees, net	81	125	(44)	(35.2)%	33	417	(384)	(92.1)%
Gain on sales of mortgage loans, net	111	851	(740)	(87.0)%	786	2,014	(1,228)	(61.0)%
Gains (losses) on other real estate owned, net	262	(2,809)	3,071	(109.3)%	751	(4,592)	5,343	(116.4)%
Other	561	353	208	58.9 %	1,558	1,458	100	6.9 %
<b>Total non-interest income</b>	<b>\$ 3,783</b>	<b>\$ 606</b>	<b>\$ 3,177</b>	<b>524.3 %</b>	<b>\$ 10,798</b>	<b>\$ 5,384</b>	<b>\$ 5,414</b>	<b>100.6 %</b>
Non-interest income as a % of total revenue *	20.9 %	3.8 %			20.0 %	11.1 %		

\* Total revenue is calculated as net interest income plus non-interest income.

NM = not meaningful

**Total non-interest income** increased \$3.2 million, or 524.3%, to \$3.8 million for the third quarter ended September 30, 2024 compared to \$0.6 million for the third quarter ended September 30, 2023, and increased \$5.4 million, or 100.6%, to \$10.8 million for the nine months ended September 30, 2024 compared to \$5.4 million for the nine months ended September 30, 2023. The increases were primarily due to earnings on bank-owned life insurance and the gain on sale of other real estate owned during the current periods.

**Earnings on bank-owned life insurance** increased to \$0.5 million for the third quarter ended September 30, 2024 compared to \$0.01 million for the third quarter ended September 30, 2023, and increased to \$1.2 million for the nine months ended September 30, 2024 compared to \$0.04 million for the nine months ended September 30, 2023. The

Company purchased \$35.0 million in bank-owned life insurance policies in the first quarter of 2024. The earnings generated from these policies are primarily derived from the investment returns on the cash value component.

**Real estate servicing fees, net** of the change in valuation of mortgage servicing rights (MSRs) decreased to \$0.08 million for the third quarter ended September 30, 2024 compared to \$0.1 million for the third quarter ended September 30, 2023, and decreased to \$0.03 million for the nine months ended September 30, 2024 compared to \$0.4 million for the nine months ended September 30, 2023. On January 31, 2024, the Company sold its servicing portfolio and the balance of the serviced loans transferred on April 30, 2024. The remaining servicing fees and costs were settled during the second and third quarter of 2024.

**Gain on sales of mortgage loans** decreased to \$0.1 million for the third quarter ended September 30, 2024 compared to \$0.9 million for the third quarter ended September 30, 2023, and decreased to \$0.8 million for the nine months ended September 30, 2024 compared to \$2.0 million for the nine months ended September 30, 2023. The Company sold \$7.4 million and \$45.0 million of mortgage loans for the three and nine months ended September 30, 2024, respectively, compared to \$37.2 million and \$84.4 million for the three and nine months ended September 30, 2023, respectively.

**Gains (losses) on other real estate owned** increased to a \$0.3 million gain for the third quarter ended September 30, 2024 compared to a \$2.8 million loss for the third quarter ended September 30, 2023, and increased to a \$0.8 million gain for the nine months ended September 30, 2024 compared to a \$4.6 million loss for the nine months ended September 30, 2023. During the second and third quarter of 2023, the Company recognized \$1.8 million and \$2.8 million in valuation write-downs, respectively, on foreclosed property in other real estate owned based on current appraisals. The Company sold the remaining parcel related to one of these properties in the second quarter of 2024, and the Company recognized a \$0.4 million release of the valuation write-down. Moreover, the Company sold land previously intended for a new branch, resulting in a gain of \$0.3 million in the third quarter of 2024.

**Non-interest expense for the periods indicated was as follows:**

(dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024	2023	\$ Change	% Change	2024	2023	\$ Change	% Change
Salaries	\$ 5,115	\$ 5,719	\$ (604)	(10.6)%	\$ 15,756	\$ 16,763	\$ (1,007)	(6.0)%
Employee benefits	1,424	1,405	19	1.4	4,237	4,215	22	0.5
Occupancy expense, net	843	842	1	0.1	2,364	2,437	(73)	(3.0)
Furniture and equipment expense	787	768	19	2.5	2,266	2,236	30	1.3
Processing, network and bank card expense	1,480	1,320	160	12.1	4,212	3,797	415	10.9
Legal, examination, and professional fees	378	499	(121)	(24.2)	1,713	1,447	266	18.4
Advertising and promotion	198	375	(177)	(47.2)	711	1,084	(373)	(34.4)
Postage, printing, and supplies	215	248	(33)	(13.3)	571	621	(50)	(8.1)
Loan expense	126	147	(21)	(14.3)	515	771	(256)	(33.2)
Other	1,428	1,246	182	14.6	4,258	4,401	(143)	(3.2)
<b>Total non-interest expense</b>	<b>\$ 11,994</b>	<b>\$ 12,569</b>	<b>\$ (575)</b>	<b>(4.6)%</b>	<b>\$ 36,603</b>	<b>\$ 37,772</b>	<b>\$ (1,169)</b>	<b>(3.1)%</b>
Efficiency ratio*	66.2 %	79.8 %			67.7 %	77.6 %		
Number of full-time equivalent employees	268	312			268	312		

\* Efficiency ratio is calculated as non-interest expense as a percent of revenue. Total revenue is calculated as net interest income plus non-interest income.

**Total non-interest expense** decreased \$0.6 million, or 4.6%, to \$12.0 million for the third quarter ended September 30, 2024 compared to \$12.6 million for the third quarter ended September 30, 2023, and decreased \$1.2 million, or 3.1%, to \$36.6 million for the nine months ended September 30, 2024 compared to \$37.8 million for the nine months ended September 30, 2023.

**Salaries** decreased \$0.6 million, or 10.6%, to \$5.1 million for the third quarter ended September 30, 2024 compared to \$5.7 million for the third quarter ended September 30, 2023, and decreased \$1.0 million, or 6.0%, to \$15.8 million for the nine months ended September 30, 2024 compared to \$16.8 million for the nine months ended September 30, 2023. The decrease was primarily due to planned reductions of full-time employees during the fourth quarter of 2023 and second quarter of 2024.

**Legal, examination and professional fees** decreased \$0.1 million, or 24.2%, to \$0.4 million for the third quarter ended September 30, 2024 compared to \$0.5 million for the third quarter ended September 30, 2023, and increased \$0.3 million, or 18.4%, to \$1.7 million for the nine months ended September 30, 2024 compared to \$1.4 million for the nine months ended September 30, 2023. The increase was primarily due to legal fees related loan workouts.

**Advertising and promotion** decreased \$0.2 million, or 47.2%, to \$0.2 million for the third quarter ended September 30, 2024 compared to \$0.4 million for the third quarter ended September 30, 2023, and decreased \$0.4 million, or 34.4%, to \$0.7 million for the nine months ended September 30, 2024 compared to \$1.1 million for the nine months ended September 30, 2023. The decrease in expenses was the result of a strategic decision to discontinue the Company's outsourced marketing efforts. The Company has hired internal marketing resources and by transitioning to an in-house marketing team, the Company has reduced costs.

#### **Income Taxes**

Income taxes as a percentage of earnings before income taxes as reported in the consolidated financial statements was 18.7% and 18.2% for the three and nine months ended September 30, 2024, respectively, compared to 16.2% and 17.1% for the three and nine months ended September 30, 2023, respectively. The effective tax rate for each of the three and nine months ended September 30, 2024 and 2023, respectively, is lower than the U.S. federal statutory rate of 21% primarily due to tax-free revenues.

#### **Lending and Credit Management**

Interest earned on the loan portfolio is a primary source of interest income for the Company. Net loans represented 79.8% of total assets as of September 30, 2024 compared to 80.8% as of December 31, 2023.

Lending activities are conducted pursuant to an established loan policy approved by the Bank's Board of Directors. The Bank's credit review process is overseen by market loan committees with established loan approval limits. In addition, a senior loan committee reviews all credit relationships in aggregate over an established dollar amount. The senior loan committee meets weekly and is comprised of senior managers of the Bank.

Major classifications within the Company's held-for-investment loan portfolio as of the dates indicated is as follows:

	September 30, 2024		December 31, 2023	
	Amount	% of Loans	Amount	% of Loans
<i>(dollars in thousands)</i>				
Commercial, financial, and agricultural	\$ 202,341	13.8 %	\$ 226,275	14.7 %
Real estate construction – residential	32,344	2.2	58,347	3.8
Real estate construction – commercial	65,432	4.5	130,296	8.5
Real estate mortgage – residential	369,103	25.2	372,391	24.2
Real estate mortgage – commercial	782,487	53.3	731,024	47.5
Installment and other consumer	15,044	1.0	20,814	1.3
<b>Total loans held for investment</b>	<b>\$ 1,466,751</b>	<b>100.0 %</b>	<b>\$ 1,539,147</b>	<b>100.0 %</b>

#### **Commercial Real Estate Loans**

Commercial real estate loans ("CRE") consist primarily of income-producing investment property loans. Additionally, CRE loans include 1-4 family property loans as well as land and development loans.

The following table shows the categories of the Company's non-owner occupied CRE loan portfolio at September 30, 2024 and December 31, 2023:

(dollars in thousands)	September 30, 2024		December 31, 2023	
	Amount	% of Loans	Amount	% of Loans
Multi Family	\$ 198,237	31.9 %	\$ 144,254	22.4 %
Retail	162,205	26.0	157,890	24.6
Hotel & Food Service	71,283	11.5	66,244	10.3
Office Buildings	47,957	7.7	49,991	7.8
1-4 Family Construction	32,344	5.2	58,347	9.0
Other Construction	31,642	5.0	33,807	5.3
Other Real Estate	26,392	4.2	21,445	3.3
Industrial	18,589	3.0	14,741	2.3
Residential Building Construction	18,390	3.0	29,149	4.5
Commercial and Institutional Building Construction	10,332	1.7	24,778	3.9
Land Subdivision	5,068	0.8	42,561	6.6
<b>Total Commercial Real Estate - Non Owner Occupied</b>	<b>\$ 622,439</b>	<b>100.0 %</b>	<b>\$ 643,207</b>	<b>100.0 %</b>

The Company extends credit to its local community markets through traditional real estate mortgage products. The Company does not participate in credit extension to sub-prime residential real estate markets. The Company does not lend funds for transactions defined as "highly leveraged" by bank regulatory authorities or for foreign loans. Additionally, the Company does not have any concentrations of loans exceeding 10% of total loans that are not otherwise disclosed in the loan portfolio composition table.

#### **Risk Elements of the Loan Portfolio**

Management, internal loan review and the senior loan committee formally review all loans in excess of certain dollar amounts (periodically established) at least annually. Loans in excess of \$2.0 million in the aggregate and all adversely classified credits identified by management are reviewed by the senior loan committee. In addition, all other loans are reviewed on a risk weighted selection process. The senior loan committee reviews and reports to the Board of Directors, at scheduled meetings: past due, classified, and watch list loans in order to classify or reclassify loans as loans requiring attention, special mention, substandard, doubtful, or loss. During this review, management will evaluate individual loans for expected credit losses when those loans do not share similar risk characteristics with loans evaluated using a collective (pooled) basis. If management determines that it is probable that all amounts due on a loan will not be collected under the original terms of the loan agreement, the loan is individually analyzed and in conjunction with current economic conditions and loss experience, reserves are estimated as further discussed below.

Loans not individually evaluated are aggregated and collectively analyzed. Management determined that segmenting loans not individually analyzed by the federal call report codes represents the most prudent way to consolidate loans by their associated risk qualities.

General reserves are recorded for collectively analyzed loans using a consistent methodology. Two different models are used for calculating the general reserve. The Discounted Cash Flow model considers quantitative peer group historic loss experience, forecasts over the estimated life of the loan pools, industry data, and qualitative or environmental factors, such as: lending policies and procedures; economic conditions; the nature, volume and terms of the portfolio; lending staff and management; past due loans; the loan review system; collateral values; concentrations of credit; and external factors. The Remaining Life model applies a long-term average loss rate calculated using peer data that is adjusted for qualitative or environmental factors such as those previously noted. The model used depends on the loan portfolio segment. Management believes, but there can be no assurance, that these procedures keep management informed of potential problem loans.



## Non-Performing Assets

The following table summarizes non-performing assets at the dates indicated:

	September 30,		December 31,		
(dollars in thousands)	2024		2023		
Non-accrual loans:					
Commercial, financial, and agricultural	\$	1,879	\$	2,228	
Real estate construction – residential		454		432	
Real estate construction – commercial		55		69	
Real estate mortgage – residential		1,113		587	
Real estate mortgage – commercial		179		2,978	
Installment and other consumer		11		—	
Total	\$	3,691	\$	6,294	
Loans contractually past - due 90 days or more and still accruing:					
Real estate mortgage – residential	\$	373	\$	115	
Installment and other consumer		2		4	
Total	\$	375	\$	119	
Total non-performing loans (a)		4,066		6,413	
Other real estate owned and repossessed assets		4,385		1,744	
Total non-performing assets (b)	\$	8,451	\$	8,157	
Loans held for investment	\$	1,466,751	\$	1,539,147	
Allowance for credit losses on loans	\$	21,937	\$	23,744	
Allowance for credit losses to loans		1.50	%	1.54	%
Non-accrual loans to total loans		0.25	%	0.41	%
Non-performing loans to loans (a)		0.28	%	0.42	%
Non-performing assets to loans (b)		0.58	%	0.53	%
Non-performing assets to assets (b)		0.47	%	0.43	%
Allowance for credit losses to non-accrual loans		594.34	%	377.25	%
Allowance for credit losses to non-performing loans		539.52	%	370.25	%

(a) Non-performing loans include loans 90 days past due and accruing and non-accrual loans.

(b) Non-performing assets include non-performing loans and other real estate owned and repossessed assets.

Total non-performing assets were \$8.5 million, or 0.58% of total loans, at September 30, 2024 compared to \$8.2 million, or 0.53% of total loans, at December 31, 2023.

Total non-accrual loans at September 30, 2024 decreased \$2.6 million, or 41.4%, to \$3.7 million compared to \$6.3 million at December 31, 2023. The decrease in non-accrual loans was primarily due to a \$1.8 million charged off commercial loan relationship and \$3.5 million in commercial real estate loans that went to non-accrual status in the first quarter and proceeded to foreclosure in the second quarter and third quarter of 2024. In addition, \$2.0 million in commercial loans moved to non-accrual status in the third quarter of 2024.

There were \$0.4 million in loans past due 90 days and still accruing interest at September 30, 2024 compared to \$0.1 million at December 31, 2023. Other real estate and repossessed assets were \$4.4 million and \$1.7 million at September 30, 2024 and December 31, 2023, respectively. There were \$3.5 million and \$0.04 million in non-accrual loans added to other real estate owned and repossessed assets during the nine months ended September 30, 2024 and 2023, respectively.

## Provision and Allowance for Credit Losses on Loans and Liability for Unfunded Commitments

### Allowance for Credit Losses

The following table is a summary of the allocation of the allowance for credit losses:

	September 30, 2024		December 31, 2023	
	Amount	% of loans in each category to total loans	Amount	% of loans in each category to total loans
<i>(dollars in thousands)</i>				
<b>Allocation of allowance for credit losses at end of period:</b>				
Commercial, financial, and agricultural	\$ 1,630	13.8 %	\$ 3,208	14.7 %
Real estate construction – residential	586	2.2	1,043	3.8
Real estate construction – commercial	1,824	4.5	3,273	8.5
Real estate mortgage – residential	5,282	25.2	5,264	24.2
Real estate mortgage – commercial	12,634	53.3	10,537	47.5
Installment and other consumer	146	1.0	232	1.3
Unallocated	(165)	—	187	—
<b>Total</b>	<b>\$ 21,937</b>	<b>100.0 %</b>	<b>\$ 23,744</b>	<b>100.0 %</b>

The allowance for credit losses was \$21.9 million, or 1.50%, of loans outstanding at September 30, 2024 compared to \$23.7 million, or 1.54%, of loans outstanding at December 31, 2023. The ratio of the allowance for credit losses to non-performing loans was 539.52% at September 30, 2024, compared to 370.25% at December 31, 2023.

### Provision for Credit Losses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(dollars in thousands)</i>				
Provision for credit losses on loans	\$ 593	\$ 300	\$ 875	\$ 1,115
Provision for (release of) credit losses for off-balance sheet commitments	(93)	(190)	(149)	(325)
<b>Total provision for credit losses</b>	<b>\$ 500</b>	<b>\$ 110</b>	<b>\$ 726</b>	<b>\$ 790</b>

The Company recognized a provision for credit losses of \$0.5 million and \$0.7 million for the three and nine months ended September 30, 2024, respectively, compared to a \$0.1 million and \$0.8 million provision for credit losses for the three and nine months ended September 30, 2023, respectively.

The following table summarizes credit loss experience for the periods indicated:

	Three Months Ended September 30,						
	2024				2023		
	(Net Charge-offs)		Net (Charge-offs)		(Net Charge-offs)		Net (Charge-offs)
	Recoveries	Average Loans	Recoveries / Average Loans		Recoveries	Average Loans	Recoveries / Average Loans
(dollars in thousands)							
Commercial, financial, and agricultural	\$ (254)	\$ 210,783	(0.12) %	\$ (7)	\$ 232,516	—	%
Real estate construction – residential	—	35,611	—	—	55,289	—	
Real estate construction – commercial	—	61,546	—	—	129,284	—	
Real estate mortgage – residential	7	369,068	—	2	376,209	—	
Real estate mortgage – commercial	(343)	792,668	(0.04)	(2)	739,225	—	
Installment and other consumer	(46)	15,977	(0.29)	(67)	22,176	(0.30)	
Total	\$ (636)	\$ 1,485,653	(0.04) %	\$ (74)	\$ 1,554,699	—	%

	Nine Months Ended September 30,							
	2024				2023			
	(Net Charge-offs)		Net (Charge-offs) Recoveries /		(Net Charge-offs)		Net (Charge-offs) Recoveries /	
(dollars in thousands)	Recoveries	Average Loans	Average Loans		Recoveries	Average Loans	Average Loans	
Commercial, financial, and agricultural	\$ (2,122)	\$ 217,576		(0.98) %	\$ 124	\$ 231,691		0.05 %
Real estate construction – residential	—	46,247		—	—	47,265		—
Real estate construction – commercial	—	70,452		—	—	137,776		—
Real estate mortgage – residential	(11)	371,072		—	6	368,702		—
Real estate mortgage – commercial	(433)	783,960		(0.06)	(25)	735,539		—
Installment and other consumer	(116)	17,916		(0.65)	(139)	22,622		(0.61)
Total	\$ (2,682)	\$ 1,507,223		(0.18) %	\$ (34)	\$ 1,543,595		— %

#### Net Loan Charge-Offs

The Company's net charge-offs were \$0.6 million and \$2.7 million for the three and nine months ended September 30, 2024 compared to \$0.1 million and \$0.03 million for the three and nine months ended September 30, 2023, respectively. The charge-offs in the current quarter primarily related to one commercial and one commercial real estate loan relationship that was adequately reserved for in the prior quarter.

#### Loans Held for Sale

The Company designates certain long-term fixed rate personal real estate loans as held for sale. Prior to September 30, 2024, these loans were initially measured at fair value under the fair value option election with subsequent changes in fair value recognized in mortgage banking income. As of September 30, 2024, loans held for sale are being carried at the lower of cost or estimated fair value. The loans are primarily sold to Freddie Mac, Fannie Mae, and PennyMac and various other secondary market investors. At September 30, 2024, the carrying amount of these loans was \$0.3 million compared to \$3.9 million at December 31, 2023.

The Company generally does not retain long-term fixed rate residential mortgage loans in its portfolio. Fixed rate loans conforming to standards required by the secondary market are offered to qualified borrowers but are not funded until the Company has a non-recourse purchase commitment from the secondary market at a predetermined price. During the nine months ended September 30, 2024, the Company sold approximately \$45.0 million of loans to investors compared to \$84.4 million for the nine months ended September 30, 2023. On January 31, 2024, the Company sold its servicing portfolio and

the balance of the serviced loans transferred on April 30, 2024. The Company was servicing approximately \$226.3 million of loans sold to the secondary market at September 30, 2023.

## Liquidity and Capital Resources

### Liquidity Management

The role of liquidity management is to ensure that funds are available to meet depositors' withdrawal and borrowers' credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in the supply of those funds. Liquidity to meet these demands is provided by maturing assets, short-term liquid assets that can be converted to cash and the ability to attract funds from external sources, principally depositors. Due to the nature of services offered by the Company, management prefers to focus on transaction accounts and full-service relationships with customers as the primary sources of funding.

The Company's Asset/Liability Committee (ALCO), primarily made up of senior management, has direct oversight responsibility for the Company's liquidity position and profile. A combination of daily, weekly, and monthly reports provided to management detail the following: internal liquidity metrics, composition and level of the liquid asset portfolio, timing differences in short-term cash flow obligations, available pricing and market access to the financial markets for capital, and exposure to contingent draws on the Company's liquidity.

The Company has a number of sources of funds to meet liquidity needs on a daily basis. The Company's most liquid assets are comprised of available-for-sale investment securities, not including other debt securities, federal funds sold, and excess reserves held at the Federal Reserve.

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023
Other interest-bearing deposits	\$ 34,813	\$ 77,775
Certificates of deposit in other banks	1,000	—
Available-for-sale investment securities	203,292	188,742
<b>Total</b>	<b>\$ 239,105</b>	<b>\$ 266,517</b>

Federal funds sold and resale agreements normally have overnight maturities and are used for general daily liquidity purposes. The fair value of the available-for-sale investment portfolio was \$203.3 million at September 30, 2024 and included an unrealized net loss of \$24.7 million. The portfolio includes projected maturities and mortgage-backed securities pay-downs of approximately \$4.3 million over the next twelve months, which offer resources to meet either new loan demand or reductions in the Company's borrowings.

The Company pledges portions of its investment securities portfolio to secure public fund deposits, federal funds purchase lines, securities sold under agreements to repurchase, borrowing capacity at the Federal Reserve Bank, and for other purposes as required or permitted by law. At September 30, 2024 and December 31, 2023, the Company's unpledged securities in the available-for-sale portfolio totaled approximately \$118.4 million and \$99.5 million, respectively.

Total investment securities pledged for these purposes were as follows:

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023
Federal Reserve Bank borrowings	\$ 9,001	\$ 9,048
Other deposits	75,885	80,175
<b>Total pledged, at fair value</b>	<b>\$ 84,886</b>	<b>\$ 89,223</b>

Liquidity is available from the Company's base of core customer deposits, defined as demand, interest checking, savings, money market deposit accounts, and time deposits less than \$250,000, less all brokered deposits under \$250,000. At September 30, 2024, such deposits totaled \$1.4 billion and represented 93.5% of the Company's total deposits. These core deposits are normally less volatile and are often tied to other products of the Company through long lasting relationships.

Core deposits at September 30, 2024 and December 31, 2023 were as follows:

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023
Non-interest bearing demand	\$ 390,639	\$ 402,241
Interest checking	313,557	387,242
Savings and money market	498,387	459,049
Other time deposits	203,135	214,004
<b>Total</b>	<b>\$ 1,405,718</b>	<b>\$ 1,462,536</b>

Estimated uninsured deposits totaled \$325.2 million, including \$97.8 million of certificates of deposit, at September 30, 2024, compared to \$387.1 million, including \$108.1 million of certificates of deposit, at December 31, 2023. The Company had brokered deposits totaling \$10,000 and \$0.2 million at September 30, 2024 and December 31, 2023, respectively.

Included in the uninsured deposits at September 30, 2024 and December 31, 2023 are public fund deposits greater than \$250,000 which are collateralized by the Company totaling \$95.1 million and \$137.7 million, respectively.

Other components of liquidity are the level of borrowings from third-party sources and the availability of future credit. The Company's outside borrowings are comprised of federal funds purchased, advances from the Federal Home Loan Bank (FHLB) and subordinated notes. Federal funds purchased are overnight borrowings obtained mainly from upstream correspondent banks with which the Company maintains approved credit lines. As of September 30, 2024, under agreements with these unaffiliated banks, the Bank may borrow up to \$35.0 million in federal funds on an unsecured basis and \$8.5 million on a secured basis. There were no federal funds purchased outstanding at September 30, 2024. The Company may periodically borrow additional short-term funds from the Federal Reserve Bank through the discount window, although no such borrowings were outstanding at September 30, 2024.

The Bank is a member of the FHLB and has access to credit products of the FHLB. As of September 30, 2024, the Bank had \$96.4 million in outstanding borrowings with the FHLB. In addition, the Company has \$49.5 million in outstanding subordinated notes issued to wholly-owned grantor trusts, funded by preferred securities issued by the trusts.

Borrowings outstanding at September 30, 2024 and December 31, 2023 were as follows:

<i>(dollars in thousands)</i>	September 30, 2024	December 31, 2023
Federal Home Loan Bank advances	\$ 96,425	\$ 107,000
Other borrowings	100	—
Subordinated notes	49,486	49,486
<b>Total</b>	<b>\$ 146,011</b>	<b>\$ 156,486</b>

The Company pledges certain assets, including loans and investment securities to the Federal Reserve Bank, FHLB, and other correspondent banks as security to establish lines of credit and to borrow from these entities. Based on the type and value of collateral pledged, the FHLB establishes a collateral value from which the Company may draw advances against this collateral. This collateral is also used to enable the FHLB to issue letters of credit in favor of public fund depositors of the Company. The Federal Reserve Bank also establishes a collateral value of assets pledged to support borrowings from the discount window.

The following table reflects collateral value of assets pledged, borrowings, and letters of credit outstanding, in addition to the estimated future funding capacity available to the Company:

(dollars in thousands)	September 30, 2024					December 31, 2023				
	FHLB	Federal Funds		Total		FHLB	Federal Funds		Total	
		Federal Reserve Bank	Purchased Lines				Federal Reserve Bank	Purchased Lines		
Advance equivalent	\$ 421,917	\$ 8,530	\$ 35,000	\$ 465,447	\$ 425,367	\$ 8,563	\$ 35,000	\$ 468,930		
Letters of credit	(44,500)	—	—	(44,500)	(107,500)	—	—	(107,500)		
Advances outstanding	(96,425)	—	—	(96,425)	(107,000)	—	—	(107,000)		
<b>Total available</b>	<b>\$ 280,992</b>	<b>\$ 8,530</b>	<b>\$ 35,000</b>	<b>\$ 324,522</b>	<b>\$ 210,867</b>	<b>\$ 8,563</b>	<b>\$ 35,000</b>	<b>\$ 254,430</b>		

At September 30, 2024, loans of \$720.7 million were pledged to the FHLB as collateral for borrowings and letters of credit. At September 30, 2024, investments with a market value of \$9.0 million were pledged to secure federal funds purchase lines and borrowing capacity at the Federal Reserve Bank.

Based upon the above, management believes the Company has more than adequate liquidity, both on balance sheet and through the additional funding capacity with the FHLB, the Federal Reserve Bank and Federal funds purchased lines to meet future anticipated liquidity needs in both the short and long-term.

#### Sources and Uses of Funds

Cash and cash equivalents were \$54.2 million at September 30, 2024 compared to \$93.4 million at December 31, 2023. The \$39.2 million decrease resulted from changes in the various cash flows produced by operating, investing, and financing activities of the Company, as shown in the accompanying consolidated statement of cash flows for the nine months ended September 30, 2024. Cash flow provided by operating activities consists mainly of net income adjusted for certain non-cash items. Operating activities provided total cash of \$23.7 million for the nine months ended September 30, 2024.

Investing activities, consisting mainly of purchases, sales and maturities of available-for-sale securities, and changes in the level of the loan portfolio, provided total cash of \$19.8 million during the nine months ended September 30, 2024. The cash flow primarily consisted of a \$66.2 million net decrease in loans held for investment and \$20.3 million proceeds from maturities and calls of available-for-sale securities, partially offset by \$32.9 million in purchases of securities and \$35.0 million in purchases of bank owned life insurance policies. During the fourth quarter of 2023, the Company repositioned its balance sheet by selling \$83.7 million in book value of investment securities, with an average yield of 1.57%.

Financing activities used total cash of \$82.6 million during the nine months ended September 30, 2024, resulting primarily from a \$34.5 million decrease in interest-bearing transaction accounts, \$21.2 million decrease in time deposits, \$11.6 million decrease in demand deposits and a \$10.5 million net decrease in FHLB advances.

In the normal course of business, the Company enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through the Company's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of the Company's liquidity. The Company had \$335.0 million in unused loan commitments and standby letters of credit as of September 30, 2024. Although the Company's current liquidity resources are adequate to fund this commitment level, the nature of these commitments is such that the likelihood of such a funding demand is very low.

The Company is a legal entity, separate and distinct from the Bank, which must provide its own liquidity to meet its operating needs. The Company's ongoing liquidity needs primarily include funding its operating expenses, paying cash dividends to its shareholders and, to a lesser extent, repurchasing its shares of common stock. The Company paid cash dividends to its shareholders totaling approximately \$3.7 million and \$3.5 million during the nine months ended September 30, 2024 and 2023, respectively. A large portion of the Company's liquidity is obtained from the Bank in the form of dividends. The Bank declared \$15.0 million and \$9.0 million in dividends to the Company during the nine months ended September 30, 2024 and 2023, respectively. At September 30, 2024 and December 31, 2023, the Company had cash and cash equivalents totaling \$13.8 million and \$6.8 million, respectively. Subject to declaration by the Company's Board of Directors, the Company expects to continue paying quarterly cash dividends as a part of its current capital allocation

strategy. Future dividends will be subject to the determination, declaration and discretion of the Company's Board of Directors and compliance with applicable regulatory capital requirements.

Pursuant to the Company's 2019 Repurchase Plan, management is given discretion to determine the number and pricing of the shares to be repurchased under the plan, as well as the timing of any such repurchases. The Company repurchased 56,692 common shares under the repurchase plan during the first nine months of 2024 at an average cost of \$19.51 per share totaling \$1.1 million. As of September 30, 2024, \$3.9 million remained available for share repurchases pursuant to the plan. Repurchases under the plan may be effectuated in the open market, by block purchase, in privately negotiated transactions, or through other transactions managed by broker-dealers, or any combination thereof. No time limit was set for completion of share repurchases under the plan.

## **Capital Management**

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

The Basel III regulatory capital reforms adopted by U.S. federal regulatory authorities (the "Basel III Capital Rules"), among other things, (i) establish the capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 Capital" instruments meeting stated requirements, (iii) require that most deductions/adjustments to regulatory capital measures be made to CET1 and not to other components of capital and (iv) define the scope of the deductions/adjustments to the capital measures.

Additionally, the Basel III Capital Rules require that the Company maintain a 2.50% capital conservation buffer with respect to each of CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of CET1, Tier 1 and total capital to risk-weighted assets, and of Tier 1 capital to average assets, each as defined in the regulations. Management believes, as of September 30, 2024, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier 1 risk-based, CET1 and Tier 1 leverage ratios. As shown in the table below, the Company's capital ratios exceeded the regulatory definition of adequately capitalized as of September 30, 2024 and December 31, 2023. Based upon the information in its most recently filed call report, the Bank met the capital ratios necessary to be well-capitalized. The regulatory authorities can apply changes in classification of assets and such changes may retroactively subject the Company to changes in capital ratios. Any such change could reduce one or more capital ratios below well-capitalized status. In addition, a change may result in imposition of additional assessments by the FDIC or could result in regulatory actions that could have a material effect on our condition and results of operations. In addition, bank holding companies generally are required to maintain a Tier 1 leverage ratio of at least 4%.

Because the Bank had less than \$15.0 billion in total consolidated assets as of December 31, 2009, the Company is allowed to continue its trust preferred securities, all of which were issued prior to May 19, 2010, as Tier 1 capital.

Under the Basel III Capital Rules, at September 30, 2024 and December 31, 2023, the Company met all capital adequacy requirements and had regulatory capital ratios in excess of the levels established for well-capitalized institutions, as shown in the following table as the dates indicated:

	Actual		Minimum Capital Required - Basel III Fully Phased-In		Required to be Considered Well- Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
<b>September 30, 2024</b>						
<b>Total Capital (to risk-weighted assets):</b>						
Company	\$ 228,627	14.91 %	\$ 160,988	10.50 %	\$ —	N.A%
Bank	218,513	14.14 %	162,284	10.50 %	154,557	10.00 %
<b>Tier 1 Capital (to risk-weighted assets):</b>						
Company	\$ 209,459	13.66 %	\$ 130,324	8.50 %	\$ —	N.A%
Bank	199,193	12.89 %	131,373	8.50 %	123,645	8.00 %
<b>Common Equity Tier 1 Capital (to risk-weighted assets):</b>						
Company	\$ 161,459	10.53 %	\$ 107,326	7.00 %	\$ —	N.A%
Bank	199,193	12.89 %	108,190	7.00 %	100,462	6.50 %
<b>Tier 1 leverage ratio (to adjusted average assets):</b>						
Company	\$ 209,459	11.33 %	\$ 73,924	4.00 %	\$ —	N.A%
Bank	199,193	10.84 %	73,517	4.00 %	91,896	5.00 %
<b>December 31, 2023</b>						
<b>Total Capital (to risk-weighted assets):</b>						
Company	\$ 221,586	13.99 %	\$ 166,266	10.50 %	\$ —	N.A%
Bank	219,043	13.91 %	165,369	10.50 %	157,494	10.00 %
<b>Tier 1 Capital (to risk-weighted assets):</b>						
Company	\$ 199,395	12.59 %	\$ 134,596	8.50 %	\$ —	N.A%
Bank	199,490	12.67 %	133,870	8.50 %	125,995	8.00 %
<b>Common Equity Tier 1 Capital (to risk-weighted assets):</b>						
Company	\$ 154,033	9.73 %	\$ 110,844	7.00 %	\$ —	N.A%
Bank	199,490	12.67 %	110,246	7.00 %	102,371	6.50 %
<b>Tier 1 leverage ratio:</b>						
Company	\$ 199,395	10.29 %	\$ 77,492	4.00 %	\$ —	N.A%
Bank	199,490	10.31 %	77,411	4.00 %	96,763	5.00 %



### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Asset/Liability and Interest Rate Risk

Management and the Board of Directors are responsible for managing interest rate risk and employing risk management policies that monitor and limit this exposure. Interest rate risk is measured using net interest income simulations and market value of portfolio equity analyses. These analyses use various assumptions, including the nature and timing of interest rate changes, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment/replacement of asset and liability cash flows.

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing earnings and preserving adequate levels of liquidity and capital. The asset and liability management function is under the guidance of the ALCO with direction from the Board of Directors. The ALCO meets quarterly to review the sensitivity of the Company's assets and liabilities to interest rate changes and to discuss local and national market conditions. The ALCO also reviews the liquidity, capital, deposit mix, loan mix and investment positions of the Company.

Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

Management analyzes the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 200 and 100 basis point decrease in interest rates on net interest income based on the interest rate risk model at September 30, 2024 and December 31, 2023.

Hypothetical shift in interest rates (bps)	% Change in projected net interest income	
	September 30,	December 31,
	2024	2023
200	(1.48)%	(1.57)%
100	(0.59)%	(0.38)%
(100)	(0.20) %	0.51 %
(200)	(1.60) %	0.49 %

The change in the Company's interest rate risk exposure from December 31, 2023 to September 30, 2024 was due to moderately higher rates on interest bearing assets projected to reprice in the next 12 months and projected repricing speeds on interest bearing assets and liabilities. In an immediate and sustained shock, interest bearing assets and liabilities are projected to reprice at relatively the same pace. Management believes the change in projected net interest income from interest rate shifts of up 200 bps and down 200 bps is an acceptable level of interest rate risk.

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that management may undertake to manage the risks in response to anticipated changes in interest rates and actual results may also differ due to any actions taken in response to the changing rates.

## Effects of Inflation

The effects of inflation on financial institutions are different from the effects on other commercial enterprises since financial institutions make few significant capital or inventory expenditures, which are directly affected by changing prices. Because bank assets and liabilities are virtually all monetary in nature, inflation does not affect a financial institution as much as do changes in interest rates. The general level of inflation does underlie the general level of most interest rates, but interest rates do not increase at the rate of inflation as do prices of goods and services. Rather, interest rates react more to changes in the expected rate of inflation and to changes in monetary and fiscal policy.

Inflation does have an impact on the growth of total assets in the banking industry, often resulting in a need to increase capital at higher than normal rates to maintain an appropriate capital to asset ratio. In the opinion of management, inflation did not have a significant effect on the Company's operations for the three months ended September 30, 2024.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our Company's management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as defined in Rules 13a – 15(e) or 15d – 15(e) of the Securities Exchange Act of 1934 as of September 30, 2024. Based upon and as of the date of that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were designed, and were effective, to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required. It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Because of these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all circumstances.

### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Securities Exchange Act of 1934) that occurred during the three months ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Impact of New Accounting Standards

**Income Taxes.** In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU requires that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold. The ASU requires that all entities disclose on an annual basis (1) the amount of income taxes paid, disaggregated by federal, state and foreign taxes and (2) the amount of income taxes paid disaggregated by individual jurisdictions in which income taxes paid is equal or greater than 5 percent of total income taxes paid. The ASU also requires that all entities disclose (1) income (loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic or foreign and (2) income tax expense (or benefit) from continuing operations disaggregated by federal (national), state and foreign. This ASU is effective for public business entities for annual periods beginning after December 15, 2024. The Company does not expect adoption of the ASU to have a material effect on the Company's consolidated financial statements.

**Segment disclosures.** In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* which requires enhanced disclosures on both an annual and interim basis about significant segment expenses, including for companies with only one reportable segment. This ASU is effective on a retrospective basis for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is evaluating the impact the adoption of this ASU will have on its consolidated financial statements and related disclosures.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The information required by this Item is set forth under the caption "Pending Litigation" in *Note 14 - Commitments and Contingencies*, in our Company's Notes to Consolidated Financial Statements (*unaudited*).

### Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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

#### The Company's Purchases of Equity Securities

The following table summarizes the purchases made by or on behalf of the Company or certain affiliated purchasers of shares of the Company's common stock during the quarter ended September 30, 2024:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs *
July 2024	5,000	\$ 19.93	5,000	\$ 3,894,221
August 2024	—	\$ —	—	\$ 3,894,221
September 2024	—	\$ —	—	\$ 3,894,221
Total	5,000	\$ 19.93	5,000	\$ 3,894,221

\* Pursuant to the Company's 2019 Repurchase Plan, management is given discretion to determine the number and pricing of the shares to be repurchased by the Company from time to time, as well as the timing of any such repurchases. The Company repurchased 5,000 common shares under the repurchase plan during the third quarter at an average cost of \$19.93 per share totaling \$0.1 million. As of September 30, 2024, \$3.9 million remained available for share repurchases pursuant to the plan.

The Company's ability to pay dividends to its shareholders and repurchase shares is affected by the Company's financial condition and liquidity, general corporate law requirements and the regulations and policies of U.S. federal regulatory authorities applicable to bank holding companies, including the Basel III Capital Rules. The Company's principal source of funds to pay dividends on its common stock and to repurchase shares, other than further issuances of securities, is dividends received from the Bank. The ability of the Bank to pay dividends to the Company depends on the earnings and financial condition of the Bank and various business considerations. In addition, the Bank is subject to federal and state laws limiting the payment of dividends, including the Federal Deposit Insurance Act and Missouri banking law. Future dividends declared and paid by the Company are subject to the determination, declaration and discretion of the Company's Board of Directors and compliance with applicable regulatory capital requirements.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

During the three months ended September 30, 2024, no director or officer of the Company adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K. There were no reportable events during the quarter ended September 30, 2024 otherwise reportable under this Item 5.

## Item 6. Exhibits

Exhibit No.	Description
3.1	<a href="#"><u>Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company's current report on Form 8-K on August 9, 2007 and incorporated herein by reference).</u></a>
3.2	<a href="#"><u>Amended and Restated Bylaws of the Company (filed as Exhibit 3.1 to the Company's current report on Form 8-K on January 27, 2021 and incorporated herein by reference).</u></a>
4.1	<a href="#"><u>Specimen certificate representing shares of the Company's \$1.00 par value Common Stock (filed as Exhibit 4.1 to the Company's current report on Form 8-K/A on June 23, 2017 and incorporated herein by reference).</u></a>
31.1	<a href="#"><u>Certificate of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certificate of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>Certificate of the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certificate of the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

## 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.

### HAWTHORN BANCSHARES, INC.

Date

/s/ Brent M. Giles

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November 14, 2024

Brent M. Giles, Chief Executive Officer (Principal Executive Officer)

/s/ Chris E. Hafner

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November 14, 2024

Chris E. Hafner, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATIONS**

I, Brent M. Giles, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawthorn Bancshares, 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, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

/s/ Brent M. Giles

Brent M. Giles

Chief Executive Officer (Principal Executive Officer)

**CERTIFICATIONS**

I, Chris E. Hafner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawthorn Bancshares, 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, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

/s/ Chris E. Hafner

Chris E. Hafner

Chief Financial Officer

**Certification of Chief Executive Officer**

In connection with the Quarterly Report of Hawthorn Bancshares, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission (the "Report"), I, Brent M. Giles, Chief Executive Officer of our Company, hereby certify in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

(b) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: November 14, 2024

/s/ Brent M. Giles

Brent M. Giles

Chief Executive Officer (Principal Executive Officer)



**Certification of Chief Financial Officer**

In connection with the Quarterly Report of Hawthorn Bancshares, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission (the "Report"), I, Chris E. Hafner, Chief Financial Officer of our Company, hereby certify in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

(b) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: November 14, 2024

/s/ Chris E. Hafner

Chris E. Hafner

Chief Financial Officer