

REFINITIV

## DELTA REPORT

### 10-K

HWBK - HAWTHORN BANCSHARES, INC.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 3223

█ CHANGES 520

█ DELETIONS 1072

█ ADDITIONS 1631

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended **December 31, 2022** **December 31, 2023**

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

43-1626350

(State or other jurisdiction of  
incorporation or organization)

(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)

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

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

Securities registered pursuant to Section 12(g) **OF THE ACT:** of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the **5,207,271** **5,600,627** shares of voting and non-voting common equity of the registrant held by non-affiliates computed by reference to the **\$25.49** **\$17.95** closing price of such common equity on **June 30, 2022** **June 30, 2023**, the last business day of the registrant's most recently completed second fiscal quarter, was **\$132,733,338** **\$100,531,255**. Aggregate market value excludes an aggregate of **1,561,310** **1,438,696** shares of common stock held by officers and directors and by each person known by the registrant to own 5% or more of the outstanding common stock on such date. Exclusion of shares held by any of these persons should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant. As of **March 29, 2023** **March 18, 2024**, the registrant had **7,284,151** **7,554,893** shares of common stock, par value \$1.00 per share, issued and **6,768,581** **7,020,548** shares outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the indicated parts of this report: (1) 2022 2023 Annual Report to Shareholders - Part II and (2) definitive Proxy Statement for the 2023 2024 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A - Part III.

---

---

## PART I

### Item 1. Business.

This report and the documents incorporated by reference herein contain forward-looking statements, which are inherently subject to risks and uncertainties. See "Forward Looking Statements" under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report.

#### General

Hawthorn Bancshares, Inc. (the "Company"), is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). The Company was incorporated under the laws of the State of Missouri on October 23, 1992 as Exchange National Bancshares, Inc. and changed its name to Hawthorn Bancshares, Inc. in August 2007. The Company owns all of the issued and outstanding capital stock of **Union State Bancshares, Inc.** ("Union"), which in turn owns all of the issued and outstanding capital stock of Hawthorn Bank. The Company and Union each received approval from the Federal Reserve and elected to become a financial holding company on October 21, 2001.

The Company acquired Hawthorn Bank and its constituent predecessor banks, as well as Union **State Bancshares** ("Union"), in a series of transactions that are summarized as follows:

- On April 7, 1993 the Company acquired all of the issued and outstanding capital stock of The Exchange National Bank of Jefferson City, a national banking association, pursuant to a corporate reorganization involving an exchange of shares;
- On November 3, 1997, the Company acquired Union, and Union's wholly-owned subsidiary, Union State Bank and Trust of Clinton;
- On January 3, 2000, the Company acquired Osage Valley Bank;
- Following the May 4, 2000 acquisition of Citizens State Bank of Calhoun by Union State Bank and Trust of Clinton, Citizens State Bank of Calhoun merged into Union State Bank and Trust of Clinton to form Citizens Union State Bank & Trust;
- On June 16, 2000, the Company acquired City National Savings Bank, FSB, which was then merged into The Exchange National Bank of Jefferson City; and
- On May 2, 2005, the Company acquired all of the issued and outstanding capital stock of Bank 10, a Missouri state bank.
- On December 1, 2006, the Company announced its development of a strategic plan in which, among other things, The Exchange National Bank of Jefferson City, Citizens Union State Bank & Trust, Osage Valley Bank and Bank 10 would be consolidated into a single bank under a Missouri state trust charter. This consolidation was completed in October 2007, and the subsidiary bank is now known as Hawthorn Bank (the "Bank").
- On December 29, 2023, the Company dissolved its wholly-owned subsidiary, Union, which owned all of the outstanding capital stock of Hawthorn Bank, in order to streamline the Company's ownership of Hawthorn Bank.

Except as otherwise provided herein or to the extent the context otherwise requires, references herein to the "Company" "Company," "we," "us" or "our" refer to Hawthorn Bancshares, Inc. and its consolidated subsidiaries, and references herein to the "Bank" refers to Hawthorn Bank and its constituent predecessors.

#### Description of Business

**The Company.** The Company is a bank holding company registered under the Bank Holding Company Act that has elected to become a financial holding company. The Company's activities currently are limited to ownership **indirectly through its subsidiary (Union)**, of the outstanding capital stock of the **Bank** **Bank and ownership of its other subsidiaries**. In addition to ownership of its subsidiaries, the Company may seek expansion through acquisition and may engage in those activities (such as investments in banks or operations that are financial in nature) in which it is permitted to engage under applicable law. It is not currently anticipated that the Company will engage in any business other than that directly related to its ownership of the Bank or other financial institutions.

**Union.** **Union is a bank holding company registered under the Bank Holding Company Act that has elected to become a financial holding company. Union's activities are currently limited to ownership of the outstanding capital stock of the Bank. It is not currently anticipated that Union will engage in any business other than that directly related to its ownership of the Bank.**

**The Bank.** The Bank was founded in 1932 as a Missouri bank and converted to a Missouri trust company on August 16, 1989. However, its predecessors trace their lineage back to the founding of Exchange National Bank in 1865. The Bank has **23** **21** banking offices, including its principal office at 132 East High Street in the central business district of Jefferson City, MO. See "Item 2. Properties".

The Bank is a full service bank conducting a general banking and trust business, offering its customers checking and savings accounts, internet banking, debit cards, certificates of deposit, trust services, brokerage services, safety deposit boxes and a wide range of lending services, including commercial and industrial loans, single payment personal loans, installment loans and commercial and residential real estate loans.

The Bank's deposit accounts are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the extent provided by law. The Bank's operations are supervised and regulated by the FDIC and the Missouri Division of Finance. Periodic examinations of the Bank are conducted by representatives of the FDIC and the Missouri Division of Finance. Such regulations, supervision and examinations are principally for the benefit of depositors, rather than for the benefit of the holders of the Bank's common stock. See "Regulation Applicable to Bank Holding Companies" and "Regulation Applicable to the Bank".

**Hawthorn Real Estate, LLC.** Hawthorn Real Estate, LLC, a non-bank subsidiary of the Company, was formed in December 2008 in order to purchase and hold various nonperforming assets of the Bank. The purpose for holding these nonperforming assets in Hawthorn Real Estate, LLC is to allow for the orderly disposition of these assets and strengthen the Bank's financial position.

**HB Realty, LLC.** HB Realty, LLC, a Missouri limited liability company ("HB Realty"), was formed in February 2018 and commenced operations in April 2018. HB Realty is intended to qualify as a "real estate investment trust" under the Internal Revenue Code of 1986, as amended (the "IRC"). HB Realty was formed in order to hold certain mortgage loans and participation interests contributed to it by the Bank. HB Realty was initially capitalized with mortgage loans and participation interests having an approximate aggregate book value of \$404,665,296. As of **December 31, 2022** December 31, 2023, the approximate aggregate book value of the mortgage loans held by HB Realty was **\$582,882,696** **\$563,150,351**. Effective September 30, 2022, to comply with collateral eligibility requirements of the Federal Home Loan Bank with whom the Bank maintains credit facilities, any participation interest in mortgage loans owned by HB Realty as of that date were converted into mortgage loans owned by HB Realty and, after that date, HB Realty will only acquire mortgage loans from the Bank, not participation interests.

Initially, the Bank was the sole common member and the sole preferred member of HB Realty, owning all 1,000 common shares and all 1,000 preferred shares. On April 1, 2018, the Bank contributed all 1,000 common shares and 850 preferred shares to Jefferson City IHC, LLC, a Missouri limited liability company that is wholly owned by the Bank ("JCIHC"). Under the IRC, a real estate investment trust must have at least 100 owners. Pursuant to a newly established Hawthorn Bank Real Estate Investment Trust Ownership Plan, the Bank made available to certain of its employees, as an employee benefit, up to a total of 150 preferred shares of HB Realty. Each selected employee was given the opportunity to own one preferred share of HB Realty. These preferred shares were transferred to employees beginning in January 2019. Each preferred share is generally entitled to an annual dividend of \$30 and a liquidation amount of \$500. Although dividends are not guaranteed, it is expected that HB Realty will pay dividends in December of each year. By virtue of its ownership of JCIHC, the Bank indirectly owns the remaining economic interest associated with membership interests in HB Realty.

Through its ownership of JCIHC, the Bank is, indirectly, the controlling member of HB Realty and is entitled to control the appointment of managers of HB Realty. The Board of Managers of HB Realty, which is responsible for the management of the business and affairs of HB Realty, is currently comprised of **David T. Turner**, **Brent M. Giles**, **Kathleen L. Brueghemke**, **Gregg A. Bexten** and **Stephen Chris E. Guthrie**, **Hafner**.

**Hawthorn Risk Management, Inc.**, **Hawthorn Risk Management, Inc.**, a non-bank subsidiary of the Company, **which was formed and began operations** on December 28, 2017, **is was** a Missouri-based captive insurance company which **provides provided** property and casualty insurance coverage to the Company and the Bank for which insurance **may was not be currently then** available or economically feasible in **today's the** insurance marketplace. Hawthorn Risk Management, Inc. **pools pooled** resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. **Hawthorn Risk Management, Inc. is subject to the regulations** **This subsidiary was dissolved as of the State of Missouri and undergoes periodic examinations by the Missouri Division of Finance** **December 1, 2023**.

## Employees

As of **December 31, 2022** December 31, 2023, the Company and its subsidiaries had approximately **299** **270** full-time and **21** **14** part-time employees. None of its employees is presently represented by any union or collective bargaining group, and the Company considers its employee relations to be satisfactory.

## Competition

Bank holding companies and their subsidiaries and affiliates encounter intense competition from both banking and nonbanking sources in all of their activities. The Bank's competitors include other commercial banks, thrifts, savings banks, credit unions, and money market mutual funds. Thrifts and credit unions now have the authority to offer checking accounts and to make corporate and agricultural loans and were granted expanded investment authority by recent federal regulations. In addition, large national and multinational corporations have in recent years become increasingly visible in offering a broad range of financial services to all types of commercial and consumer customers. In the Bank's service areas, new competitors, as well as the expanding operations of existing competitors, have had, and are expected to continue to have, an adverse impact on the Bank's market share of deposits and loans in such service areas.

The Bank experiences substantial competition for deposits and loans within both its primary service areas of the cities of Jefferson City, Columbia, Clinton, Lee's Summit, Warsaw, and Springfield, Missouri, as well as within its secondary service areas of the nearby communities in the Missouri counties of Cole, Boone, Henry, Cass, Benton, and Greene. The Bank's principal competition for deposits and loans comes from other banks within its primary service areas and, to an increasing extent, other banks located in its secondary service areas. Based on publicly available information, management believes that the Bank is the second largest (in terms of deposits) of the 11 banks within Cole county, the **ninth** **eleventh** largest (in terms of deposits) of the **20** **21** banks within Boone county, the largest (in terms of deposits) of the **eight** **8** banks within Henry county, the third largest (in terms of deposits) of the 18 banks within Cass county, and the second largest (in terms of deposits) of the **five** **5** banks within Benton county. The main competition for Hawthorn Bank's trust services is from other commercial banks, including those of the Kansas City metropolitan area.

## Regulation Applicable to Bank Holding Companies

**General.** As a registered bank holding company and a financial holding company under the Bank Holding Company Act and the Gramm-Leach-Bliley Act, the Company is subject to supervision and examination by the Board of Governors of the Federal Reserve System (the "FRB"). The FRB has authority to issue cease and desist orders against bank holding companies if it determines that their actions represent unsafe and unsound practices or violations of law. In addition, the FRB is empowered to impose civil money penalties for violations of banking statutes and regulations. Regulation by the FRB is intended to protect depositors of the Bank, not the shareholders of the Company. The Company is also

subject to a number of restrictions and requirements imposed by the Sarbanes-Oxley Act of 2002 relating to internal control over financial reporting, disclosure controls and procedures, loans to directors or executive officers of the Company and its subsidiaries, the preparation and certification of the Company's consolidated financial statements, the duties of the Company's audit committee, relations with and functions performed by the Company's independent registered public accounting firm, and various accounting and corporate governance matters.

**Limitation on Activities.** The activities of bank holding companies are generally limited to the business of banking, managing or controlling banks, and other activities that the FRB has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In addition, under the Gramm-Leach-Bliley Act, a bank holding company, all of whose controlled depository institutions are "well capitalized" and "well managed" (as defined in federal banking regulations) with "satisfactory" ratings under the Community Reinvestment Act, may declare itself to be a "financial holding company" and engage in a broader range of activities. As noted above, the Company is registered as a financial holding company.

A financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. "Financial in nature" activities include:

- securities underwriting, dealing and market making;
- sponsoring mutual funds and investment companies;
- insurance underwriting and insurance agency activities;
- merchant banking; and
- activities that the FRB determines to be financial in nature or incidental to a financial activity or which are complementary to a financial activity and does not pose a safety and soundness risk.

A financial holding company that desires to engage in activities that are financial in nature or incidental to a financial activity but not previously authorized by the FRB must obtain approval from the FRB before engaging in such activity. Additionally, a financial holding company may seek FRB approval to engage in an activity that is complementary to a financial activity, if it shows, among other things, that the activity does not pose a substantial risk to the safety and soundness of its insured depository institutions or the financial system.

A financial holding company generally may acquire a company (other than a bank holding company, bank or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature without prior approval from the FRB. Prior FRB approval is required, however, before the financial holding company may acquire control of more than 5% of the voting shares or substantially all of the assets of a bank holding company, bank or savings association. In addition, under the FRB's merchant banking regulations, a financial holding company is authorized to invest in companies that engage in activities that are not financial in nature, as long as the financial holding company makes its investment with the intention of limiting the duration of the investment, does not manage the company on a day-to-day basis, and the company does not cross-market its products or services with any of the financial holding company's controlled depository institutions.

**If any subsidiary bank of** A financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. "Financial in nature" activities include:

- securities underwriting, dealing and market making;
- sponsoring mutual funds and investment companies;
- insurance underwriting and insurance agency activities;
- merchant banking; and
- activities that the FRB determines to be financial in nature or incidental to a financial activity or which are complementary to a financial activity and does not pose a safety and soundness risk.

A financial holding company that desires to engage in activities that are financial in nature or incidental to a financial activity but not previously authorized by the FRB must obtain approval from the FRB before engaging in such activity. Additionally, a financial holding company ~~ceases~~ may seek FRB approval to be "well-capitalized" or "well-managed" and fails engage in an activity that is complementary to correct its condition within the time period a financial activity, if it shows, among other things, that the FRB specifies, activity does not pose a substantial risk to the ~~FRB has authority to order~~ safety and soundness of its insured depository institutions or the financial holding company to divest its subsidiary banks. Alternatively, the financial holding company may elect to limit its activities and the activities of its subsidiaries to those permissible for a bank holding company that is not a financial holding company. If any subsidiary bank of a financial holding company receives a rating under the Community Reinvestment Act of less than "satisfactory", then the financial holding company is prohibited from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations until the rating is raised to "satisfactory" or better. system.

**Limitation on Acquisitions.** The Bank Holding Company Act requires a bank holding company to obtain prior approval of the FRB before:

- taking any action that causes a bank to become a controlled subsidiary of the bank holding company;
- acquiring direct or indirect ownership or control of voting shares of any bank or bank holding company, if the acquisition results in the acquiring bank holding company having control of more than 5% of the outstanding shares of any class of voting securities of such bank or bank holding company, and such bank or bank holding company is not majority-owned by the acquiring bank holding company prior to the acquisition;
- acquiring substantially all of the assets of a bank; or
- merging or consolidating with another bank holding company.

**Regulatory Capital Requirements.** The FRB has issued risk-based and leverage capital guidelines applicable to United States ("U.S.") banking organizations. If a bank holding company's capital falls below minimum required levels, then the bank holding company must implement a plan to increase its capital, and its ability to pay dividends and make acquisitions of new bank subsidiaries may be restricted or prohibited. The risk-based capital guidelines that applied to us and our subsidiary bank prior to January 1, 2015 were based on the 1988 capital accord, referred to as Basel I, of the International Basel Committee on Banking Supervision (the "Basel Committee"), a committee of central banks and bank supervisors, as implemented by federal bank regulators. In 2008, the bank regulatory agencies began to phase-in capital standards based on a second capital accord issued by the Basel Committee, referred to as Basel II, for large or "core" international banks (generally defined for U.S. purposes as having total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more). Because we do not anticipate controlling any large or "core" international bank in the foreseeable future, Basel II presently does not apply to us. On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. In July 2013, the federal banking agencies announced new risk-based capital and leverage ratios that became applicable to conform to the Basel III framework and to address provisions of the Dodd-Frank Act as of January 1, 2015 (the "Basel III Rules"). With respect to the Company and the Bank, these requirements became effective on January 1, 2015.

The Basel III Rules established three components of regulatory capital: (1) common equity tier 1 ("CET1") capital, (2) additional tier 1 ("AT1") capital, and (3) tier 2 ("Tier 2") capital. CET1 capital generally includes common stock instruments and related surplus (net of treasury stock), retained earnings, and, subject to certain adjustments, minority common equity interests in subsidiaries, less goodwill and certain other adjustments. Tier 1 ("Tier 1") capital generally includes CET1 capital plus elements of AT1 capital, such as non-cumulative perpetual preferred stock and similar instruments meeting specified criteria and minority interests in subsidiaries that do not satisfy the requirements for treatment as CET1 capital. Cumulative preferred stock (other than cumulative preferred stock issued to the U.S. Treasury under the Capital Purchase Program or the Small Business Lending Fund) does not qualify as AT1 capital. Trust-preferred securities and other non-qualifying capital instruments issued prior to May 19, 2010 by bank and savings and loan holding companies with less than \$15 billion in assets as of December 31, 2009 or by mutual holding companies may continue to be included in Tier 1 capital but will be phased out over ten years beginning in 2016 for all other banking organizations. These non-qualifying capital instruments, however, may be included in Tier 2 capital. Tier 2 capital may also include certain qualifying debt and the allowance for credit losses up to 1.25% of risk-weighted assets and other adjustments.

The Basel III Rules provide for a number of deductions from and adjustments to CET1 capital. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and investments in the capital of unconsolidated financial institutions be deducted from CET1 capital to the extent that any one such category exceeds 10% of CET1 capital or all such categories in the aggregate exceed 15% of CET1 capital. Beginning April 1, 2020, this framework for regulatory capital deductions to CET1 capital was simplified by increasing the deduction threshold to 25% at the individual level for each of the aforementioned categories. Pursuant to the Basel III Rules, the effects of certain accumulated other comprehensive income or loss ("AOCI") items are not excluded; however, "non-advanced approaches banking organizations," including the Company and the Bank, could make a one-time permanent election to continue to exclude these items. The Company made its one-time, permanent election to continue to exclude AOCI items from capital in its filing with the FRB for the quarter ended March 31, 2015. If the Company would not have made this election, unrealized gains and losses would have been included in the calculation of its regulatory capital.

The sum of the three tiers of capital less investments in unconsolidated subsidiaries represents the total capital. The risk-based capital ratios are calculated by dividing CET1 capital, Tier 1 capital and total capital by risk-weighted assets (including certain off-balance sheet activities). Under the Basel III Rules, the minimum capital ratios effective as of January 1, 2015 are:

- CET1 risk-based capital ratio equal to at least 4.5% of its risk-weighted assets;
- Tier 1 risk-based capital ratio equal to at least 6% of its risk-weighted assets;
- Total risk-based capital ratio equal to at least 8% of its risk-weighted assets; and
- Tier 1 capital to average consolidated assets (leverage ratio) of at least 4%.

In addition to the higher requirements, the Basel III Rules established bank holding companies are required to maintain a CET1 capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital conservation buffer requirement was phased in over four years beginning in 2016. On January 1, 2016, the first phase of the requirement went into effect at 0.625% of risk-weighted assets, and increased each subsequent year by an additional 0.625 percentage points, to reach its final level of 2.5% of risk weighted assets on January 1, 2019. At December 31, 2019, the capital conservation buffer requirement of 2.5%, effectively raised the minimum required risk-based capital ratios to 7% CET1 capital, 8.5% Tier 1 capital and 10.5% total capital on a fully phased-in basis, basis as of December 31, 2019.

On December 31, 2022 December 31, 2023 the Company was in compliance with the FRB's capital adequacy guidelines. The Company's capital ratios calculated under the Basel III Rules (minimum plus a 2.5% capital conservation buffer) on December 31, 2022 December 31, 2023 are as follows:

Tier 1 Leverage Ratio (4%) (min requirement)	Tier 1 Leverage Ratio (4%) (min requirement)	Total Risk-			CET1 Risk- Based Capital Ratio (7.0%) (min requirement plus buffer)	Tier 1 Risk-Based Capital Ratio (8.5%) (min requirement plus buffer)	Total Risk-Based Capital Ratio (10.5%) (min requirement plus buffer)					
		CET1 Risk- Based Capital	Tier 1 Risk- Based Capital	Based Capital Ratio								
		Ratio (7.0%) (min requirement)	Ratio (8.5%) (min requirement)	(10.5%) (min requirement)								
10.76%	9.89%	12.52%	13.85%	Tier 1 Leverage Ratio (4%) (min requirement plus buffer)	10.29	%	9.73	%	12.59	%	13.99	%
10.29												

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA") directs the federal banking agencies to develop a specified community bank leverage ratio (the "CBLR") (that is, the ratio of a bank's equity capital to its consolidated assets) of not less than 8% and not more than 10%. On November 4, 2019, federal

regulators issued final rules that provide certain banks and their holding companies with the option to elect out of complying with the

Basel III Rules. Under this new rule, a qualifying community banking organization is eligible to elect the CBLR framework if it has a CBLR greater than 9% at the time of election.

A qualifying community banking organization ("QCBO") is defined as a bank, a savings association, a bank holding company or a savings and loan holding company with:

- a CBLR greater than 9%;
- total consolidated assets of less than \$10 billion;
- total off-balance sheet exposures (excluding derivatives other than credit derivatives and unconditionally cancelable commitments) of 25% or less of total consolidated assets; and
- total trading assets and trading liabilities of 5% or less of total consolidated assets.

A QCBO may elect out of complying with the Basel III Rules if, at the time of the election, the QCBO has a CBLR above 9%. The CBLR is generally calculated in accordance with the regulations for calculating the Tier 1 leverage ratio under the regulatory capital framework discussed above and below, with certain specified exceptions. As of **December 31, 2020** December 31, 2023, the Company and the Bank each qualified to elect the CBLR framework because they had a CBLR of greater than 9% and satisfied the other requirements. The Company does not have immediate plans to elect to use the CBLR framework but may make such an election in the future.

**Interstate Banking and Branching.** Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"), a bank holding company is permitted to acquire the stock or substantially all of the assets of banks located in any state regardless of whether such transaction is prohibited under the laws of any state. The FRB will not approve an interstate acquisition if, as a result of the acquisition, the bank holding company would control more than 10% of the total amount of insured deposits in the U.S. or would control more than 30% of the insured deposits in the home state of the acquired bank. The 30% of insured deposits state limit does not apply if the acquisition is the initial entry into a state by a bank holding company or if the home state waives such limit. The Riegle-Neal Act also authorizes banks to merge across state lines, thereby creating interstate branches. The Bank and Savings Association Holding Company and Depository Institution Regulatory Improvements Act of 2010, a subset of the Dodd-Frank Act (defined below), permits banks to acquire and establish de novo branches in other states if a state bank in that other state would be permitted to establish the branch.

Under the Riegle-Neal Act, individual states may restrict interstate acquisitions in two ways. A state may prohibit an out-of-state bank holding company from acquiring a bank located in the state unless the target bank has been in existence for a specified minimum period of time (not to exceed five years). A state may also establish limits on the total amount of insured deposits within the state which are controlled by a single bank holding company, provided that such deposit limit does not discriminate against out-of-state bank holding companies.

**Source of Strength.** Bank holding companies, such as the Company, are required by statute to serve as a source of financial strength for their subsidiary depository institutions, by providing financial assistance to their insured depository institution subsidiaries in the event of financial distress. Under the source of strength requirement, the Company could be required to provide financial assistance to the Bank should it experience financial distress. Furthermore, the FRB has the right to order a bank holding company to terminate any activity that the FRB believes is a serious risk to the financial safety, soundness or stability of any subsidiary bank. The regulators may require these and other actions in support of controlled banks even if such action is not in the best interests of the bank holding company or its stockholders.

**Liability of Commonly Controlled Institutions.** Under cross-guaranty provisions of the Federal Deposit Insurance Act (the "FDIA"), bank subsidiaries of a bank holding company are liable for any loss incurred by the Deposit Insurance Fund (the "DIF"), the federal deposit insurance fund for banks, in connection with the failure of any other bank subsidiary of the bank holding company.

**Bank Secrecy Act and USA PATRIOT Act.** The Company and the Bank must comply with the requirements of the Bank Secrecy Act, which was enacted to prevent banks and other financial service providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, drug trafficking, money laundering, and other

crimes. Since its passage, the Bank Secrecy Act has been amended several times. These amendments include the Money Laundering Control Act of 1986, which made money laundering a criminal act, as well as the Money Laundering Suppression Act of 1994, which required regulators to develop enhanced examination procedures and increased examiner training to improve the identification of money laundering schemes in financial institutions. The USA PATRIOT Act,

established in 2001, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the U.S. The regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent, and report money laundering and terrorist financing. The regulations include significant penalties for non-compliance.

**Missouri Bank Holding Company Regulation.** Missouri prohibits any bank holding company from acquiring ownership or control of any bank or Missouri depository trust company that has Missouri deposits if, after such acquisition, the bank holding company would hold or control more than 13% of total Missouri deposits. Because of this restriction, among others, a bank holding company, prior to acquiring control of a bank or depository trust company that has deposits in Missouri, must receive the approval of the Missouri Division of Finance.

#### Regulation Applicable to the Bank

**General.** The Bank, a Missouri state non-member depository trust company, is subject to the regulation of the Missouri Division of Finance and the FDIC. The FDIC is empowered to issue cease and desist orders against the Bank if it determines that any activities of the Bank represent unsafe and unsound banking practices or violations of law. In addition, the FDIC has the power to impose civil money penalties for violations of banking statutes and regulations. Regulation by these agencies is designed to protect the depositors of the Bank, not the shareholders of the Company.

**Bank Regulatory Capital Requirements.** The FDIC has adopted minimum capital requirements applicable to state non-member banks, which are similar to the capital adequacy guidelines established by the FRB for bank holding companies. Federal banking laws classified an insured financial institution in one of the following five categories, depending upon the amount of its regulatory capital:

- "well-capitalized" if it has a total Tier 1 leverage ratio of 5% or greater, a CET1 risk-based capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8% or greater and a total risk-based capital ratio of 10% or greater (and is not subject to any order or written directive requiring the bank to adhere to a higher capital ratio);
- "adequately capitalized" if it has a total Tier 1 leverage ratio of 4% or greater, a CET1 risk-based capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a total risk-based capital ratio of 8% or greater;
- "undercapitalized" if it has a total Tier 1 leverage ratio that is less than 4%, a CET1 risk-based capital ratio that is less than 4.5%, a Tier 1 risk-based capital ratio that is less than 6% or a total risk-based capital ratio that is less than 8%;
- "significantly undercapitalized" if it has a total Tier 1 leverage ratio that is less than 3%, a CET1 risk-based capital ratio that is less than 3%, a Tier 1 risk-based capital ratio that is less than 4% or a total risk-based ratio that is less than 6%; and
- "critically undercapitalized" if it has a Tier 1 leverage ratio that is equal to or less than 2%.

Federal regulatory agencies are required to take prompt corrective action against undercapitalized financial institutions. As of **December 31, 2022** **December 31, 2023**, the Bank was classified as "well-capitalized," which is required for the Company to remain a financial holding company.

The capital ratios and classifications of the Bank as of **December 31, 2022** **December 31, 2023** and the minimum requirements to be considered well-capitalized are as follows:

Tier 1 Leverage Ratio (5.0% minimum requirement)	CET1 Risk- Based Capital Ratio			Tier 1 Risk- Based Capital Ratio			CET1 Risk- Based Capital Ratio (6.5%) (min requirement)	Tier 1 Risk-Based Capital Ratio (8.0%) (min requirement)	Total Risk-Based Capital Ratio (10.0%) (min requirement)
	Tier 1 Leverage Requirement	Tier 1 Capital Requirement	Tier 1 Capital Requirement	Tier 1 Leverage Ratio (5.0% minimum requirement)					
10.85%	12.80%	12.80%	13.78%	10.31	%	12.67	%	12.67	%
10.31									13.91 %

**Limitations on Interest Rates and Loans to One Borrower.** The rate of interest a bank may charge on certain classes of loans is limited by state and federal law. At certain times in the past, these limitations have resulted in reductions of net interest margins on certain classes of loans. Federal and state laws impose additional restrictions on the lending activities of banks. The maximum amount that a Missouri state-chartered bank may lend to any one person or entity is

generally limited to 15% of the unimpaired capital of the bank located in a city having a population of 100,000 or more, 20% of the unimpaired capital of the bank located in a city having a population of less than 100,000 and over 7,000, and 25% of the unimpaired capital of the bank if located elsewhere in the state. In the case of Missouri state-chartered banks with a composite rating of 1 or 2 under the Capital, Assets, Management, Earnings, Liquidity and Sensitivity (CAMELS) rating system, the maximum amount is the greater of (i) the limits listed in the foregoing sentence or (ii) 25% of the unimpaired capital of the bank.

**Payment of Dividends.** The Company's primary source of funds is dividends from the Bank, and the Bank is subject to federal and state laws limiting the payment of dividends. Under the FDIA, an FDIC-insured institution may not pay dividends while it is undercapitalized or if payment would cause it to become undercapitalized. The National Bank Act and Missouri banking law also prohibit the declaration of a dividend out of the capital and surplus of the Bank.

**Community Reinvestment Act.** The Bank is subject to the Community Reinvestment Act and implementing regulations. These regulations establish the framework and criteria by which the bank regulatory agencies assess an institution's record of helping to meet the credit needs of its community, including low- and moderate-income neighborhoods. Community Reinvestment Act ratings are taken into account by regulators in reviewing certain applications made by the Company and the Bank. On October 24, 2023, the federal banking regulators issued a joint notice of final rulemaking to modernize the Community Reinvestment Act regulatory framework. The final rule is intended, among other things, to adapt to changes in the banking industry, including the expanded role of mobile and online banking, and to tailor performance standards to account for differences in bank size and business models. The final rule adjusts Community Reinvestment Act evaluations based on bank size and type, with many of the changes applying only to banks with over \$2 billion in assets, and several applying only to banks with over \$10 billion in assets. The final rule takes effect April 1, 2024, with staggered compliance dates of January 1, 2026, and January 1, 2027. The Company will evaluate the effects of the final rule on the Bank prior to the applicable compliance date and review its Community Reinvestment Act program in connection therewith.

**Limitations on Transactions with Affiliates.** The Company and its non-bank subsidiaries are "affiliates" within the meaning of the Federal Reserve Act. The amount of loans or extensions of credit which the Bank may make to non-bank affiliates, or to third parties secured by securities or obligations of the non-bank affiliates, are substantially limited by the Federal Reserve Act and the FDIA. Such acts further restrict the range of permissible transactions between a bank and an affiliated company. A bank and its subsidiaries may engage in certain transactions, including loans and purchases of assets, with an affiliated company only if the terms and conditions of the transaction, including credit standards, are substantially the same as, or at least as favorable to the bank as, those prevailing at the time for comparable transactions with non-affiliated companies or, in the absence of comparable transactions, on terms and conditions that would be offered to non-affiliated companies.

**Other Banking Activities.** The investments and activities of the Bank are also subject to regulation by federal and state banking agencies regarding, among other things, investments in subsidiaries, investments for their own account (including limitations on investments in junk bonds and equity securities), loans to officers, directors and their

affiliates, security requirements, anti-tying limitations, anti-money laundering, financial privacy and customer identity verification requirements, truth-in-lending, the types of interest bearing deposit accounts which it can offer, trust department operations, brokered deposits, audit requirements, issuance of securities, branching and mergers and acquisitions.

#### **Changes in Laws and Monetary Policies**

**Recent Legislation.** Various pieces of legislation, including proposals to change substantially the financial institution regulatory system, are from time to time introduced and considered by the Missouri state legislature and the U.S. Congress. In July 2010, President Barack Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which enacted substantial changes to the legal framework of the entire financial services industry. The Dodd-Frank Act mandates the passage of numerous rules and regulations by various regulatory agencies over the next few years. It also creates the Consumer Financial Protection Bureau, which will overtake supervision of most providers of consumer financial products and services, and will be empowered to declare acts or practices related to the delivery of a consumer financial product or service to be "unfair, deceptive or abusive." This law will continue to change banking regulation and the operating environment of the Company in substantial and unpredictable ways. These changes could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot predict the impact that the Dodd-Frank Act, and the various regulations issued thereunder will have on its business.

Key provisions of the EGRRCPA as it relates to community banks and bank holding companies include, but are not limited to: (i) designating mortgages held in portfolio as "qualified mortgages" for banks with less than \$10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than \$10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than \$10 billion in assets by requiring federal banking agencies to establish a CBLR of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from \$1 billion to \$5 billion in assets; (vi) clarifying definitions pertaining to high-volatility commercial real estate, which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (vii) changing the eligibility for use of the small bank holding company policy statement from institutions with under \$1 billion in assets to institutions with under \$3 billion in assets.

**Fiscal Monetary Policies.** The Company's business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Company is particularly affected by the policies of the FRB, which regulates the supply of money and credit in the U.S. Among the instruments of monetary policy available to the FRB are:

- conducting open market operations in U.S. government securities;
- changing the discount rates of borrowings of depository institutions;
- imposing or changing reserve requirements against depository institutions' deposits; and
- imposing or changing reserve requirements against certain borrowings by bank and their affiliates.

These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the FRB have a material effect on the Company's business, results of operations and financial condition.

The references in the foregoing discussion to various aspects of statutes and regulation are merely summaries, which do not purport to be complete and which are qualified in their entirety by reference to the actual statutes and regulations.

#### **Available Information**

The address of the Company's principal executive offices is 132 East High Street, Jefferson City, Missouri 65101 and the telephone number at this location is (573)761-6100. The Company's common stock trades on the Nasdaq Global Select Market under the symbol "HWBK".

We electronically file certain documents with the Securities and Exchange Commission (the "SEC"). We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K (as appropriate), along with any related amendments and supplements. From time-to-time, we also may file registration and related statements pertaining to equity or debt offerings. You may read and download the Company's SEC filings over the internet from several commercial document retrieval services as well as at the SEC's internet website ([www.sec.gov](http://www.sec.gov)).

The Company's internet website address is [www.hawthornbancshares.com](http://www.hawthornbancshares.com). Under the "Documents" menu tab of our website, we make available, without charge, the Company's public filings with the SEC, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, or any amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Please note that any internet addresses provided in this report are for information purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such internet addresses is intended or deemed to be incorporated by reference herein.

#### **Item 1A. Risk Factors.**

##### **Risk Factors**

We are identifying important risks and uncertainties that could affect the Company's results of operations, financial condition or business and that could cause them to differ materially from the Company's historical results of operations, financial condition or business, or those contemplated by forward-looking statements made herein or elsewhere, by, or on behalf of, the Company. Factors that could cause or contribute to such differences include, but are not limited to, those factors described below. The risk factors highlighted below are not necessarily the only ones that the Company faces.

## Risks Relating to Our Business and Market

**Public Health Threats or Outbreaks of Communicable Diseases May Adversely Affect the Company's Operations and Financial Results.** The Company and the Bank may face risks related to public health threats or outbreaks of communicable diseases. A widespread healthcare crisis, such as an outbreak of a communicable disease could adversely affect the global economy and the Company's financial performance. For example, COVID-19 pandemic destabilized the financial markets in which the Bank operates, and the effects of the pandemic continue to cause disruption in the global economies and financial markets, including the Bank's local markets. The Company and the Bank are dependent upon the willingness and ability of the Bank's customers to conduct banking and other financial transactions, which could be limited in the event of a disease outbreak or pandemic. For example, in reaction to and as a preventative measure to attempt to slow the spread of COVID-19, government authorities in many states and municipalities implemented mandatory closures, shelter-in-place orders, and social distancing protocols, including orders within many of the geographic areas that the Bank operates. Although the Bank is typically considered an essential business, access to its branches and office locations may be restricted at times for the safety of its employees and customers. Limiting customer access to the Bank's physical business could prevent some customers from transacting with the Bank and lower demand for lending and other services offered by the Bank, adversely affecting the Bank's and the Company's cash flows, financial condition, results of operations, profitability and asset quality for an indefinite period of time. This could have a material adverse effect on the Bank's and Company's results of operations, financial condition, and liquidity. A resurgence of the COVID-19 pandemic, or the outbreak of another illness, disease or virus, and efforts to contain such pandemic or outbreak could:

- negatively impact customer demand of the Bank's lending and related services;
- cause the Bank to experience an increase in costs as a result of the Bank implementing operational changes to accommodate its newly-remote workforce;
- cause delayed payments from customers and uncollectible accounts, defaults, foreclosures, and declining collateral values, resulting in losses to the Bank and the Company;
- result in losses on the Bank's investment portfolio, due to volatility in the markets and lower trading volume driven by economic uncertainty;
- cause market interest rates to continue to decline, which could adversely affect the Bank's and the Company's net interest income and profitability;
- cause the Bank's credit losses to grow substantially; and
- impact availability of qualified personnel.

The ultimate extent of the COVID-19 pandemic's negative impact on the Bank and the Company are highly uncertain and cannot be predicted. Beyond the recent COVID-19 pandemic, the potential impacts of epidemics, pandemics, or other outbreaks of an illness, disease, or virus could therefore materially and adversely affect the Bank's and the Company's business, revenue, operations, financial condition, liquidity and cash flows.

**Because We Primarily Serve Central and West Central Missouri, a Decline in the Local Economic Conditions Could Lower the Company's Profitability.** The profitability of the Company is dependent on the profitability of the Bank, which operates out of central and west-central Missouri. The financial condition of the Bank is affected by slowing or recessionary economic conditions and business activity prevailing in the portion of Missouri in which its operations are located. Although our customers' business and financial interests may extend well beyond our market areas, the financial conditions of both the Company and the Bank would be adversely affected by deterioration in the general economic and real estate climate in Missouri.

An increase in unemployment, a decrease in profitability of regional businesses or real estate values, or an increase in interest rates are among the factors that could weaken the local economy. With a weaker local economy:

- customers may not want or need the products and services of the Bank,
- borrowers may be unable to repay their loans,
- the value of the collateral security of the Bank's loans to borrowers may decline,
- the number of loan delinquencies and foreclosures may increase, and
- the overall quality of the Bank's loan portfolio may decline.

Originating mortgage loans and consumer loans are a significant source of profits for the Bank. If individual customers in the local area do not want or need these loans, profits may decrease. Although the Bank could make other investments, the Bank may earn less revenue on these investments than on loans. Additionally, the Bank's losses on loans may increase if borrowers are unable to make payments on their loans.

**Interest Rate Changes May Reduce the Profitability of the Company and the Bank.** The primary source of earnings for the Bank is net interest income. To be profitable, the Bank has to earn more money in interest and fees on loans and other interest-earning assets than it pays as interest on deposits and other interest-bearing liabilities and as other expenses. If prevailing interest rates decrease, the amount of interest the Bank ~~earns~~ earns on loans and investment securities may decrease more rapidly than the amount of interest the Bank has to pay on deposits and other interest-bearing liabilities. This would result in a decrease in the profitability of the Company and the Bank.

Changes in the level or structure of interest rates also affect:

- the Bank's ability to originate loans,
- the value of the Bank's loan and securities portfolios,
- the Bank's ability to realize gains from the sale of loans and securities,

- the average life of the Bank's deposits, and
- the Bank's ability to obtain deposits.

Fluctuations in interest rates will ultimately affect both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the fair value of all interest-earning assets, other than interest-earning assets that mature in the short term. In the fourth quarter of 2023, the Company repositioned its balance sheet by selling \$83.7 million in book value of investment securities for an after-tax realized loss of \$9.1 million. The Bank's interest rate management strategy is designed to stabilize net interest income and preserve capital over a broad range of interest rate movements by matching the interest rate sensitivity of assets and liabilities. Although the Company believes that the Bank's current mix of loans, mortgage-backed securities, investment securities and deposits is reasonable, significant fluctuations in interest rates may have a negative effect on the profitability of the Bank.

**Our Business Depends On Our Ability to Successfully Manage Credit Risk.** The operation of our business requires us to manage credit risk. As a lender, the Bank is exposed to the risk that borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our loan officers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to address changes in economic or other conditions affecting borrowers (such as the current recessionary environment and rising higher interest rates) and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our allowance for loan credit losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition or results of operations.

**The Company's Profitability Depends On The Bank's Asset Quality and Lending Risks.** Success in the banking industry largely depends on the quality of loans and other assets. A significant source of risk for us arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. The Bank's loan officers are actively encouraged to identify deteriorating loans. Loans are also monitored and categorized through an analysis of their payment status. The Bank's failure to timely and accurately monitor the quality of its loans and other assets could have a materially adverse effect on the operations and financial condition of the Company and the Bank. There is a degree of credit risk associated with any lending activity. The Bank attempts to minimize its credit risk through loan diversification. Although the Bank's loan portfolio is varied, with no undue concentration in any one industry, substantially all of the loans in the portfolio have been made to borrowers in central, west central, and southwest Missouri. Therefore, the loan portfolio is susceptible to factors affecting the central, west central, and southwest Missouri area and the level of non-performing assets is heavily dependent upon local

conditions. There can be no assurance that the level of the Bank's non-performing assets will not increase above current levels. High levels of non-performing assets could have a materially adverse effect on the operations and financial condition of the Company and the Bank.

**The Provision for Probable Loan Credit Losses May Need to Be Increased.** The Bank makes a provision for loan credit losses based upon management's estimate of probable losses in the loan portfolio and its consideration of prevailing economic and environmental conditions. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond the Company's control, and these losses may exceed current estimates. We cannot fully predict the amount or timing of losses or whether the loss allowance will be adequate in the future. The Bank may need to increase the provision for loan credit losses through additional provisions in the future if, among other things, the financial condition of any of its borrowers deteriorates, if its borrower fails to perform its obligations to it, or if real estate values decline. Furthermore, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's loan portfolio, provision for loan credit losses, and real estate acquired by foreclosure. Such agencies may require the Bank to recognize additions to the provision for loan credit losses based on their judgments of information available to them at the time of the examination. Any additional provision for probable loan credit losses, whether required as a result of regulatory review or initiated by the Company itself, may materially alter the financial outlook of the Company and the Bank and may have a material adverse effect on the Company's financial condition and results of operations.

In June of 2016, On January 1, 2023, the Company adopted ASU 2016-13, Financial Accounting Standards Board, or FASB, decided to review how banks estimate losses in Instruments - Credit Losses (Topic 326), which sets forth the allowance calculation, and it issued the final current expected credit loss standard, or CECL. Currently, Previously, the impairment model was based on incurred losses, and investments were recognized as impaired when there was no longer an assumption that future cash flows will be collected in full under the originally contracted terms. This model will be replaced by the new CECL model that will become effective for the Company in January 2023. Under the new CECL model, promulgated under ASU 2016-13 "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", we will be required to use historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of the loan and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. The ASU will require new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. Entities will be required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as

of the beginning of the first reporting period in which the guidance is adopted. The adoption of the standard by the Company resulted in an increase to the allowance for credit losses of \$5.8 million and a liability for unfunded commitments totaling \$1.3 million. These one-time cumulative adjustments resulted in a \$5.6 million tax-effected decrease to retained earnings. The transition to the CECL model will bring significant changes to methodologies to accurately account for expected losses under the new parameters.

The Company's CECL committee implemented a model from a third-party vendor and continues to refine documentation and assumptions for transitioning to the CECL model effective January 1, 2023. In addition, the Company engaged a third-party, independent firm experienced in CECL matters to perform a validation of the model. The Company currently expects to record a one-time adjustment to retained earnings to increase the allowance for loan losses. The amount of the adjustments will be impacted by each portfolio's

composition and credit quality at the adoption date as well as economic conditions and forecasts at that time. Based on implementation progress to date, the Company believes the capital adequacy requirements to which it and the Bank are subject to, and its business strategies and practices, was not materially impacted following the adoption in the first quarter of 2023.

**Adverse Market Conditions in the U.S. Economy and the Markets in Which We Operate Could Adversely Impact the Company's Business.** General downward Unfavorable or uncertain economic trends, such as the current and market conditions, including slowing or recessionary economic environment, conditions, reduced availability of commercial credit, and increasing unemployment have may negatively impacted impact the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Competition among depository institutions for deposits has increased significantly. Financial institutions have experienced decreased access to deposits or borrowings.

The economy is currently experiencing a period of heightened inflation and rising interest rates. In addition, during the COVID-19 pandemic, our growth was bolstered by temporary government programs, such as the SBA Paycheck Protection Program (PPP) pursuant to which we issued PPP loans in 2020 and 2021. Furthermore, real estate values and the demand for commercial real estate loans have not fully recovered, and reduced availability of commercial credit and continuing unemployment have negatively impacted the credit performance of commercial and consumer credit. Additional market developments such as worsening of economic conditions in other parts of the world would likely exacerbate the lingering effects of the difficult market conditions experienced by us and others in the financial services industry and could further slow, stall or reverse the slow economic recovery in the U.S. A further deterioration of overall market conditions, a continuation of the economic downturn or prolonged economic stagnation in the Company's markets may have a negative impact on its business, financial condition, results of operations and the trading price of its common stock. If the strength of the U.S. economy in general and the strength of the economy in areas where we lend were to stagnate or further decline, this could result in, among other things, a deterioration in credit quality or a reduced demand for credit, including a resultant adverse effect on the Company's loan portfolio and provision for losses on loans. This may exacerbate the Company's exposure to credit risk, impair the Company's ability to assess the creditworthiness of its customers or to estimate the values of its assets and adversely affect the ability of borrowers to perform under the terms of their lending arrangements with us. Negative conditions in the real estate markets where we operate could adversely affect borrowers' ability to repay their loans and the value of the underlying collateral. Real estate values are affected by various factors, including general economic conditions, governmental rules or policies and natural disasters. These factors may adversely impact borrowers' ability to make required payments, which in turn, may negatively impact the Company's financial results. As a result of the difficult market and economic conditions referred to above, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and for bank regulatory agencies to be very aggressive in responding to concerns and trends identified in examinations. This increased government action may increase costs and limit the Company's ability to pursue certain business opportunities.

We cannot predict whether the difficult market and economic conditions will improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult conditions on the Company, its customers and the other financial institutions in its market. As a result, we may experience increases in foreclosures, delinquencies and customer bankruptcies, as well as more restricted access to funds, and the Company's business, financial condition, results of operations and stock price may be adversely affected.

**Smaller Commercial Borrowers May Have Fewer Financial Resources, Which May Impair Their Ability to Repay Loans.** We provide lending to many small- to medium-sized customers, which frequently have fewer financial resources than larger entities (in terms of capital or borrowing capacity). Accordingly, these businesses may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete, and may experience substantial volatility in operating results, any of which may impair the borrower's ability to repay a loan. If these or other borrowers are harmed by adverse business conditions in the markets in which we operate, it may result in an adverse effect to the business, financial condition and results of operations of the Company or the Bank.

**The Soundness of Other Financial Institutions Could Adversely Affect Us.** The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect the Company's results of operations.

The recent bank failures of Silicon Valley Bank in California, Signature Bank in New York, and First Republic Bank in California during the first and second quarters of 2023 have caused a degree of panic and uncertainty in the investor community and among bank customers generally. While the Company does not believe that the circumstances of these three banks' failures are indicators of broader issues with the banking system, the failures may reduce customer confidence, affect sources of funding and liquidity, increase regulatory requirements and costs, adversely affect financial markets and/or have a negative reputational ramifications for the banking industry, including the Company. The Company will continue to monitor the ongoing events concerning these three banks as well as any future potential bank failures and volatility within the banking industry generally, together with any responsive measures taken by the banking regulators to mitigate or manage potential turmoil in the banking industry.

**Liquidity risk could impair our ability to fund operations and meet our obligations as they become due, and failure to maintain sufficient liquidity could materially adversely affect our growth, business, profitability and financial condition.** Liquidity is essential to our business. Liquidity risk is the potential that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding at a reasonable cost, in a timely manner and without adverse conditions or consequences. We require sufficient liquidity to fund asset growth, meet customer loan requests, customer deposit maturities and withdrawals, payments on our debt obligations as they become due and other cash commitments under both normal operating conditions and other unpredictable circumstances, including events causing industry or general financial market stress. Liquidity risk can increase due to a number of factors, including an over-reliance on a particular source of funding or market-wide phenomena such as market dislocation and major disasters. Factors that could detrimentally impact access to liquidity sources include, but are not limited to, a decrease in the level of our business activity as a result of a slowdown in our market, adverse regulatory actions against us, or changes

in the liquidity needs of our depositors. Market conditions or other events could also negatively affect the level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner, and without adverse consequences. Our inability to raise funds through deposits, borrowings, the sale of loans, other sources, and our ability to maintain sufficient deposits, could have a substantial negative effect on our business, and could result in the closure of the Bank. Our access to funding sources in amounts adequate to finance our activities or on acceptable terms could be impaired by factors that affect our organization specifically or the financial services industry or economy in general. Any substantial, unexpected, and/or prolonged change in the level or cost of liquidity could impair our ability to fund operations and meet our obligations as they become due and could have a material adverse effect on our business, financial condition and results of operations.

We rely on customer deposits, including brokered deposits, and to a lesser extent on advances from the FHLB and federal funds purchased to fund our operations. Although we have historically been able to replace customer deposit withdrawals, maturing deposits, and advances if desired, we may not be able to replace such funds in the future if our financial condition, the financial condition of the FHLB or market conditions were to change. FHLB borrowings and other current sources of liquidity may not be available or, if available, sufficient to provide adequate funding for operations.

**Deterioration in the Housing Market Could Cause Further Increases in Delinquencies and Non-Performing Assets, Including Loan Charge-Offs, and Depress the Company's Income and Growth.** The volume of one-to-four family residential mortgages and home equity lines of credit may decrease during economic downturns as a result of, among other things, a decrease in real estate values, an increase in unemployment, a slowdown in housing price appreciation or increases in interest rates. These factors could reduce earnings and consequently the Company's financial condition because:

- borrowers may not be able to repay their loans;
- the value of the collateral securing loans may decline further;
- the quality of the Company's loan portfolio may decline further; and
- customers may not want or need the Company's products and services.

Any of these scenarios could cause an increase in delinquencies and non-performing assets, require us to charge-off a higher percentage of loans, increase substantially the provision for losses on loans, or make fewer loans, which would reduce income.

**The FDIC's Changes in the Calculation of Deposit Insurance Premiums and Ability to Levy Special Assessments Could Increase the Company's Non-Interest Expense and May Reduce Its Profitability.** The range of base assessment rates historically varies from 12 to 45 basis points depending on an institution's risk category, with newly added financial measures resulting in increased assessment rates for institutions heavily relying on brokered deposits to support rapid asset growth. However, the Dodd-Frank Act requires the FDIC to amend its regulations to redefine the assessment base used for calculating deposit insurance assessments. On February 9, 2011, the FDIC adopted a final rule that defines the assessment base as the average consolidated total assets during the assessment period minus the average tangible equity of the insured depository institution during the assessment period. The FDIC also imposed a new assessment rate scale (which was revised further in 2016). Under the new system, banks will generally pay assessments at a rate between 2.5 and 32 basis points per assets minus tangible equity, depending upon an institution's risk category (the final rule also includes progressively lower assessment rate schedules when the FDIC's reserve ratio reaches certain levels). The rulemaking changes the current assessment rate schedule so the schedule will result in the collection of assessment revenue that is approximately the same as generated under the current rate schedule and current assessment base. Nearly all banks with assets less than \$10 billion will pay smaller deposit insurance assessments as a result of the new rule. The majority of the changes in the FDIC's final rule became effective on April 1, 2011. The FDIC has the statutory authority to impose special assessments on insured depository institutions in an amount, and for such purposes, as the FDIC may deem necessary. The FDIC issued a final rule in November 2023 to implement a special assessment to recover the significant losses incurred by the FDIC in connection with the 2023 bank failures, but that special assessment did not apply to the Bank. The change in the calculation methodology for deposit insurance premiums and the possible emergency special assessments could increase non-interest expense and may adversely affect the Company's profitability.

**We May Elect Or Be Compelled To Seek Additional Capital In The Future, But That Capital May Not Be Available When It Is Needed.** We are required by regulatory authorities to maintain adequate levels of capital to support operations. In addition, we may elect to raise additional capital to support the growth of the Company's business or to

finance acquisitions, if any, or we may elect to raise additional capital for other reasons. In that regard, a number of financial institutions have recently raised considerable amounts of capital as a result of a deterioration in their results of operations and financial condition arising from the turmoil in the mortgage loan market, deteriorating economic conditions, declines in real estate values and other factors. Should we elect or be required by regulatory authorities to raise additional capital, we may seek to do so through the issuance of, among other things, common stock or securities convertible into

common stock, which could dilute your ownership interest in the Company. Although we remain "well-capitalized" and have not had a deterioration in liquidity, the future cost and availability of capital may be adversely affected by illiquid credit markets, economic conditions and a number of other factors, many of which are outside of the Company's control. Accordingly, we cannot assure you of the ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed or on terms acceptable to us, it may have a material adverse effect on the Company's financial condition and results of operations.

**If We Are Unable to Successfully Compete for Customers in the Company's Market Area, the Company's Financial Condition and Results of Operations Could Be Adversely Affected.** The Bank faces substantial competition in making loans, attracting deposits and providing other financial products and services. The Bank has numerous competitors for customers in its market area.

Such competition for loans comes principally from:

- other commercial banks
- savings banks
- savings and loan associations
- mortgage banking companies
- finance companies
- credit unions

Competition for deposits comes principally from:

- other commercial banks
- savings banks
- savings and loan associations
- credit unions
- brokerage firms
- insurance companies
- money market mutual funds
- mutual funds (such as corporate and government securities funds)

Many of these competitors have greater financial resources and name recognition, more locations, more advanced technology and more financial products to offer than the Bank. Competition from larger institutions may increase due to an acceleration of bank mergers and consolidations in Missouri and the rest of the nation. In addition, the Gramm-Leach-Bliley Act removes many of the remaining restrictions in federal banking law against cross-ownership between banks and other financial institutions, such as insurance companies and securities firms. The law will likely increase the number and financial strength of companies that compete directly with the Bank.

The profitability of the Bank depends on its continued ability to attract new customers and compete in its service areas. Increased competition in our markets from new competitors, as well as the expanding operations of existing competitors, may result in:

- interest rate changes to various types of accounts;
- a decrease in the amounts of the Bank's loans and deposits;
- reduced spreads between loan rates and deposit rates; and
- loan terms that are less favorable to the bank. Bank.

Any of these results could have a material adverse impact on the Bank's market share of deposits and loans in the Bank's service areas. If the Bank is unable to successfully compete, its financial condition and results of operations will be adversely affected.

**We May Experience Difficulties in Managing Growth and in Effectively Integrating Newly Acquired Companies.** As part of the Company's general strategy, it may continue to acquire banks and businesses that it believes provide a strategic fit with its business. To the extent that the Company does grow, there can be no assurances that we will

be able to adequately and profitably manage such growth. Acquiring other banks and businesses will involve risks commonly associated with acquisitions, including:

- potential exposure to liabilities of the banks and businesses acquired;
- difficulty and expense of integrating the operations and personnel of the banks and businesses acquired;
- difficulty and expense of instituting the necessary systems and procedures, including accounting and financial reporting systems, to manage the combined enterprises on a profitable basis;
- potential disruption to existing business and operations;
- potential diversion of the time and attention of management; and
- impairment of relationships with and the possible loss of key employees and customers of the banks and businesses acquired.

The success of the Company's internal growth strategy will depend 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. There is no assurance that we will be successful in implementing the Company's internal growth strategy.

**The Bank is a Community Bank and Our Ability to Maintain the Bank's Reputation is Critical to the Success of Our Business and the Failure to Do So Could Materially Adversely Affect Our Performance.** The Bank is a community bank, and its reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. However, employee error or employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our clients or improper use of confidential information. It is not always possible to prevent employee error or misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results could be materially adversely affected.

**Fraudulent Activity Could Damage Our Reputation, Disrupt Our Business, Increase our Costs and Cause Losses.** Financial institutions are inherently exposed to operational risk in the form of theft and other fraudulent activity by employees, clients and other third parties targeting us and our customers or data. Such activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering, and other dishonest acts. Although the Company devotes substantial resources to maintaining effective policies and internal controls to identify and prevent such incidents, given the increasing sophistication of possible perpetrators, the Company or the Bank may experience financial losses or reputational harm as a result of fraud. In addition, we may be required to make significant capital expenditures in order to modify and enhance our

protective measures or to investigate and remediate fraudulent activity. Although we have not experienced any material business or reputational harm as a result of fraudulent activities in the past, the occurrence of fraudulent activity could damage our reputation, disrupt our business, increase our costs and cause losses in the future.

**Phase-out of the London Inter-Bank Offered Rate ("LIBOR") and Uncertainty Relating to Alternative Reference Rates May Adversely Affect Our Results of Operations.** LIBOR is used extensively as a reference rate for various financial contracts, including adjustable-rate loans, asset-backed securities, and interest rate swaps. In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, and such date was later extended to June 30, 2023. Accordingly, continuation of LIBOR cannot be guaranteed after June 30, 2023 and alternative reference rates must be established. Management is currently evaluating the impact of this transition as it relates to new and existing contracts and customers. We will be required to implement substitute indices for the calculation of interest rates under our loan agreements and we are currently evaluating appropriate alternatives to LIBOR. Implementing the LIBOR phase-out will involve additional expense and may reduce the value of our LIBOR-based loans and securities and impact the availability and cost of hedging instruments and borrowings. If we fail to successfully execute the transition, we may be subject to disputes or litigation with clients over the appropriateness of substitute LIBOR indices. The ultimate impact of the LIBOR phase-out on the valuations, pricing and operation of our financial instruments is not yet known and difficult to predict and may adversely affect our results of operations. At December 31, 2022, \$10.0 million of our loans were tied to LIBOR.

**The Company's Success Largely Depends on the Efforts of its Executive Officers.** The success of the Company and the Bank has been largely dependent on the efforts of David Turner, **Chairman, Executive and Director, and Brent M. Giles, CEO President, and Director**, and the other executive officers. These individuals are expected to continue to perform their services. However, the loss of the services of Mr. Turner or **Mr. Giles**, or any of the other key executive officers could have a materially adverse effect on the Company and the Bank.

**If We Fail to Maintain an Effective System of Internal Control Over Financial Reporting, We May Not Be Able to Accurately Report Our Financial Results or Prevent Fraud, and, As a Result, Investors and Depositors**

**Could Lose Confidence in Our Financial Reporting, Which Could Adversely Affect Our Business, the Trading Price of Our Stock, and Our Ability to Attract Additional Deposits.** We are required to include in our annual reports filed with the SEC a report from our management regarding internal control over financial reporting. As a result, we documented and evaluated our internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and SEC rules and regulations, which require an annual management report on our internal control over financial reporting, including, among other matters, management's assessment of the effectiveness of internal

control over financial reporting. Failure or circumvention of our system of internal control could have an adverse effect on our business, profitability, and financial condition, and could result in regulatory actions and loss of investor confidence. Additionally, if we fail to identify and correct any significant deficiencies or material weaknesses in the design or operating effectiveness of our internal control over financial reporting or fail to prevent fraud, current and potential stockholders and depositors could lose confidence in our financial reporting, which could adversely affect our business, financial condition and results of operations, the trading price of our stock and our ability to attract additional deposits.

**Severe Weather, Natural Disasters, Pandemics, and Other External Events Could Significantly Impact Our Business.** Severe weather, including tornadoes, droughts, hailstorms and other natural disasters, pandemics, such as the outbreak of COVID-19, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. Operations in our markets could be disrupted by both the evacuation of large portions of the population as well as damage or lack of access to our banking and operation facilities. Military and political conflicts, including the current military conflict between Russia and Ukraine, may increase volatility in commodity and energy prices, create supply chain issues and cause instability in financial markets, which may adversely affect us and our clients. Other severe weather or natural disasters, pandemics, acts of war or terrorism or other adverse external events may occur in the future. Although management has established business continuity plans and procedures, the occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

**Climate Change and Responses to Climate Change May Adversely Impact Our Business, Financial Condition and Results of Operations.** Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts to mitigate those impacts. Consumers and businesses are also changing their behavior and business preferences as a result of these concerns. New governmental regulations or guidance relating to climate change, as well as changes in consumers' and businesses' behaviors and business preferences, may cause us and our customers to experience cost increases, asset value reductions, operating process changes and delays in completion of projects. To the extent that climate change and responses to climate change negatively impact the businesses and financial condition of our customers, the credit risk associated with loans and other credit exposures to those customers may increase. In addition, weather events related to climate change could adversely affect our business and the businesses of our customers.

**Public Health Threats or Outbreaks of Communicable Diseases May Adversely Affect the Company's Operations and Financial Results.** The Company and the Bank may face risks related to public health threats or outbreaks of communicable diseases. A widespread healthcare crisis, such as an outbreak of a communicable disease could adversely affect the global economy and the Company's financial performance. For example, the COVID-19 pandemic destabilized the financial markets in which the Bank operates, and the effects of the pandemic continue to cause disruption in the global economies and financial markets, including the Bank's local markets. The Company and the Bank are dependent upon the willingness and ability of the Bank's customers to conduct banking and other financial transactions, which could be limited in the event of a disease outbreak or pandemic.

#### **Risks Relating to Our Regulatory Environment**

**We May Be Adversely Affected by Changes in Laws And Regulations Affecting the Financial Services Industry.** Banks and bank holding companies such as the Company are subject to regulation by both federal and state bank regulatory agencies. The regulations, which are designed to protect borrowers and promote certain social policies,

include limitations on the operations of banks and bank holding companies, such as minimum capital requirements and restrictions on dividend payments. The regulatory authorities have extensive discretion in connection with their supervision and enforcement activities and their examination policies, including the imposition of restrictions on the operation of a bank, the classification of assets by an institution and requiring an increase in a bank's allowance for loan credit losses. These regulations are not necessarily designed to maximize the profitability of banking institutions.

In July 2010, President Barack Obama signed into law the Dodd-Frank Act, which enacted substantial changes to the legal framework of the entire financial services industry. The Dodd-Frank Act mandates the passage of numerous rules and regulations by various regulatory agencies over the next few years. This legislation will change banking regulation and the operating environment of the Company in substantial and unpredictable ways. It could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot predict the impact that the Dodd-Frank Act, and the various regulations issued thereunder will have on its business.

These, and other future changes in the banking laws and regulations and tax and accounting rules applicable to financial institutions, could have a material adverse effect on the operations and financial condition of the Company and the Bank.

**The Federal Reserve May Require the Company to Commit Capital Resources to Support the Bank.** As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to its subsidiary banks. The Federal Reserve may charge the bank holding company with engaging in unsafe and unsound practices for failure to adequately commit resources to a subsidiary bank. Accordingly, we may be required to make capital injections into a troubled subsidiary bank, even if such contribution creates a detriment to the Company or its stockholders. If we do not have sufficient resources on hand to fund the capital injection, we may be required to borrow funds or raise capital. Any such loans are subordinate in right of payment to deposits and to certain indebtedness of the subsidiary bank. In the event of bankruptcy of the bank holding company, claims based upon any commitments to fund capital injections are entitled to a priority of payment over claims made by general unsecured creditors, including holders of indebtedness. Thus, any borrowing incurred by the Company to make required capital injections to the Bank are difficult and expensive, and will adversely impact our financial condition, results of operations and future prospects.

**The Short-Term And Long-Term Impact of the Changing Regulatory Capital Requirements and New Capital Rules is Uncertain.** The federal banking agencies have substantially amended the regulatory capital rules applicable to us and the Bank. The amendments implement the Basel III Rules and changes required by the Dodd-Frank Act. The amended rules include new minimum risk-based capital and leverage ratios, which became effective in January 2015, with certain requirements to be phased in beginning in 2016, and refined the definition of what constitutes "capital" for purposes of calculating those ratios.

The application of more stringent capital requirements to us and the Bank could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could further limit the Company's ability to make distributions, including paying out dividends or buying back shares.

The EGRRCPA directs the federal banking agencies to develop a specified CBLR (that is, the ratio of a bank's equity capital to its consolidated assets) of not less than 8% and not more than 10%. On November 4, 2019, federal regulators issued final rules effective January 1, 2020 that provide certain banks and their holding companies with the option to elect out of complying with the Basel III Rules. Under this new rule, a qualifying community banking organization is eligible to elect the CBLR framework if it has a CBLR greater than 9% at the time of election. The final rule is described in more detail above under the section entitled "Regulatory Capital Requirements." As of December 31, 2020, the Company and the Bank each qualified to elect the CBLR framework because they had a CBLR of greater than 9% and satisfied the other requirements. The Company has not opted in to CBLR framework. The Company does not have immediate plans to elect to use the CBLR framework but may make such an election in the future.

**Higher FDIC Deposit Insurance Premiums and Assessments Could Adversely Affect our Financial Condition.** Our deposits are insured up to applicable limits by the DIF and are subject to deposit insurance assessments to maintain deposit insurance. As an FDIC-insured institution, we are required to pay quarterly deposit insurance premium assessments to the FDIC. Growth in insured deposits at FDIC-insured financial institutions in recent years caused the ratio of the DIF to total insured deposits to fall below the current statutory minimum, and the FDIC has approved an increase in the base assessment rates to increase the likelihood that the reserve ratio of the DIF reaches the statutory minimum level by the statutory deadline. Although we cannot predict what the insurance assessment rates will be in the future, either a deterioration in our risk-based capital ratios or further adjustments to the base assessment rates could have a material adverse impact on our business, financial condition, results of operations and cash flows.

**Non-Compliance with the USA PATRIOT Act, Bank Secrecy Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Community Reinvestment Act, Fair Lending Laws or Other Laws and Regulations Could Result in Fines or Sanctions, and Curtail Expansion Opportunities.** Financial institutions are required under the USA PATRIOT and Bank Secrecy Acts to develop programs to prevent financial institutions from being used for money-laundering and terrorist activities. Financial institutions are also obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure or the inability to comply with the USA PATRIOT Act and Bank Secrecy Act statutes and

regulations could result in fines or penalties, curtailment of expansion opportunities, enforcement actions, intervention or sanctions by regulators and costly litigation or expensive additional controls and systems. During the last few years, several banking institutions have received large fines for non-compliance with these laws and regulations. In addition, the U.S. Government imposed and will continue to expand laws and regulations relating to residential and consumer lending activities that create significant new compliance burdens and financial risks.

**Regulations Relating to Privacy, Information Security and Data Protection Could Increase Our Costs, Affect or Limit How We Collect and Use Personal Information and Adversely Affect Our Business Opportunities.** We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively impacted by these laws. For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share non-public personal information about our clients with non-affiliated third parties; (ii) requires that we provide certain disclosures to clients about our information collection, sharing and security practices and afford clients the right to "opt out" of any information sharing by us with non-affiliated third

parties (with certain exceptions); and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing safeguards that are appropriate based on our size and complexity, the nature and scope of our activities and the sensitivity of client information we process, as well as plans for responding to data security breaches. Many state and federal banking regulators, states and foreign countries have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notifications in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the U.S. and other countries are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of client or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level by the Federal Trade Commission, as well as at the state level.

Compliance with any current or future laws and regulations noted above (including those regarding security breach notification) could result in higher compliance costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial conditions or results of operations. Our failure to comply with any such laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

**We are Subject to Numerous Laws Designed to Protect Consumers, Including the Community Reinvestment Act and Fair Lending Laws, and Failure to Comply with These Laws Could Lead to a Wide Variety of Sanctions.** The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and future prospects. We may be subject to liability for potential violations of predatory lending laws, which could adversely impact our results of operations, financial condition and business.

**We Are Subject to a Number of Other Laws and Regulations, Which May Adversely Affect the Operation of Our Business and Increase Our Costs.** We are extensively regulated under U.S. federal and state law, and are subject to a number of laws and regulations in addition to banking laws and regulations, including securities, insurance and tax laws and regulations. As a company whose stock is publicly traded, we are subject to various federal and state securities laws, including the Securities Act of 1933, as amended, the Exchange Act and the Sarbanes-Oxley Act of 2002, and we file periodic reports with the Securities and Exchange Commission. In addition, because our common stock is listed with The Nasdaq Stock Market LLC, we are subject to the listing rules of that exchange. Our subsidiary, Hawthorn Risk Management, Inc., is subject to the regulations of the State of Missouri and undergoes periodic examinations by the Missouri Division of Finance. The Company and its subsidiaries are subject to federal and state income taxes and Missouri franchise taxes, and are potentially subject to audits by the Internal Revenue Service and state income and franchise tax examinations by the Missouri Department of Revenue. Any failure by us to comply with any laws or regulations, any change in such laws or regulations or the position of any regulatory agency with respect thereto, or any adverse result in

any regulatory investigation or examination, including any tax audit or examination, could adversely affect our business, financial condition and results of operations.

#### Technology and Vendor Risks

**We Are Subject to Security and Operational Risks Relating to Our Use of Technology That Could Damage Our Reputation and Our Business.** We rely heavily on communications and information systems to conduct our business. Furthermore, we have access to large amounts of confidential financial information and control substantial financial assets, including those belonging to our customers, to whom we offer remote access, and we regularly transfer substantial financial assets by electronic means. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any failure, interruption or breach in security of our systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. Although we intend to continue to implement security technology and establish operational procedures to prevent such damage, our security measures may not be successful.

In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations. We also face the risk of operational disruption, failure, termination or capacity constraints caused by third parties that facilitate our business activities by providing technology such as software applications, as well as financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems, data or infrastructure.

We also face the potential risk of loss due to fraud, including commercial checking account fraud, automated teller machine (ATM) skimming and trapping, write-offs necessitated by debit card fraud, and other forms of online banking fraud, which are becoming more sophisticated and present new challenges as mobile banking increases, as well as employee fraud. Employee errors could also subject us to financial claims for negligence. We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, and if any resulting loss is not insured or exceeds applicable insurance limits, such failure could have a material adverse effect on our business, financial condition and results of operations.

**The Operation of Our Business, Including Customer Interaction, is Increasingly Done Via Electronic Means, and This Has Increased Our Risks Related to Cybersecurity.** We rely on the successful and uninterrupted functioning of our information technology and telecommunications systems to conduct our business. This includes internally developed systems, the systems of third-party service providers, and digital and mobile technologies. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems, and could damage our reputation, result in loss of

customer business, subject us to regulatory scrutiny, or expose us to civil litigation and possible financial liability. We are exposed to the risk of cyber-attacks in the normal course of business, which can result from deliberate attacks or unintentional events. We have observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as by causing denial-of-service attacks on websites. Cyber-attacks may be carried out by third parties or insiders using techniques that range from highly sophisticated efforts to electronically circumvent network security or overwhelm websites to more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. The objectives of cyber-attacks vary widely and can include theft of financial assets, intellectual property, or other sensitive information, including the information belonging to our banking customers. Cyber-attacks may also be directed at disrupting our operations.

We may incur substantial costs and suffer other negative consequences if we fall victim to successful cyber-attacks. Such negative consequences could include remediation costs that may include liability for stolen assets or information and repairing system damage that may have been caused; increased cybersecurity protection costs that may include organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation; and reputational damage adversely affecting customer or investor confidence.

**We Continually Encounter Technological Change, and We Cannot Predict How Changes in Technology Will Affect Our Business.** The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology driven by products and services, which include developments in:

- telecommunications
- data processing
- automation
- internet-based banking
- telebanking
- debit cards and so-called "smart cards"

The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

**We Rely On Others to Provide Key Components of Our Business Infrastructure.** Third-party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions. If these third-party vendors experience financial, operational or technological difficulties, perform their services poorly or terminate their services, and we are unable to replace them with other service providers, our operations could be interrupted. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. If a service interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Replacing these third party vendors could also entail significant delay and additional expense.

#### Risks Related to Our Common Stock

**The Price of Our Common Stock Could Fluctuate Significantly, and This Could Make it Difficult for You to Resell Shares of Our Common Stock at Times or at Prices You Find Attractive.** The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility during the recent changes in economic downturn and industry conditions. In some cases, the markets have produced downward pressure on stock prices for certain issuers without regard to those issuers' underlying financial strength. As a result, the trading volume in our common stock could fluctuate more than usual and cause significant price variations to occur. This could make it difficult for you to resell shares of our common stock at times or at prices you find attractive.

The trading price of the shares of our common stock will depend on many factors that could change from time to time and could be beyond our control. Among the factors that could affect our stock price are those identified under the heading "Forward-Looking Statements" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report and as follows:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our common stock or those of other financial institutions;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community generally or relating to our reputation, our market area, our competitors or the financial services industry in general;
- strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions or financings;
- actions by our current stockholders, including sales of common stock by existing stockholders and/or directors and executive officers;
- fluctuations in the stock price and operating results of our competitors;
- future sales of our equity, equity-related or debt securities;

- changes in the frequency or amount of dividends or share repurchases;
- proposed or adopted regulatory changes or developments;
- investigations, proceedings or litigation that involve or affect us;
- trading activities in our common stock, including short-selling;
- domestic and local economic factors unrelated to our performance; and
- general market conditions and, in particular, developments related to market conditions for the financial services industry.

A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

**The Trading Volume in Our Common Stock Has Been Low, and the Sale of a Substantial Number of Shares of Our Common Stock in the Public Market Could Depress the Price of Our Common Stock and Make it Difficult for You to Sell Your Shares.** Our common stock is listed to trade on the **NASDAQ Nasdaq** Global Select Market, but is thinly traded. As a result, you may not be able to sell your shares of common stock on short notice. Additionally, thinly traded stock can be more volatile than stock trading in an active public market. The sale of a substantial number of shares of our common stock at one time could temporarily depress the market price of our common stock, making it difficult for you to sell your shares and impairing our ability to raise capital.

**Our Common Stock is Not Insured by Any Governmental Entity.** Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity.

**Additional Factors.** Additional risks and uncertainties that may affect the future results of operations, financial condition or business of the Company and its banking subsidiary include, but are not limited to: (i) adverse publicity, news coverage by the media, or negative reports by brokerage firms, industry and financial analysts regarding the Bank or the Company; and (ii) changes in accounting policies and practices.

#### Item 1B. Unresolved Staff Comments.

None.

#### Item 1C. Cybersecurity.

Pursuant to General Instruction G(2) to Form 10-K, the information required by this Item is incorporated herein by reference to the information under "Information Technology Risk Management" under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2023 Annual Report to Shareholders (included as Exhibit 13 hereto).

#### Item 2. Properties.

Neither the The Company nor Union owns does not own or leases lease any property. The Company's principal offices are office is located at 132 East High Street, Jefferson City, Missouri 65101. The table below provides a list of the Bank's facilities.

Location	Location	Approximate Square Footage	Owned or Leased	Net Book Value at December 31, 2022 (in thousands)	Location	Approximate Square Footage	Owned or Leased	Net Book Value at December 31, 2023 (in thousands)
8127 East 171 <sup>st</sup> Street, Belton, MO	8127 East 171 <sup>st</sup> Street, Belton, MO	13,000	Owned	\$ 1,276				
910 West Buchanan Street, California, MO	910 West Buchanan Street, California, MO	2,270	Owned	\$ 288				
102 North Second Street, Clinton, MO	102 North Second Street, Clinton, MO	11,524	Owned	\$ 1,097				
1400 East Ohio Street, Clinton, MO	1400 East Ohio Street, Clinton, MO	13,551	Owned	\$ 2,313				
1712 East Ohio Street, Clinton, MO (inside a Walmart store)		540	Leased (1)	\$ 37				
803 E. Walnut St, Columbia, MO	803 E. Walnut St, Columbia, MO	9,698	Leased (2)	\$ 995				

1110 Club Village Drive, Columbia, MO	1110 Club Village Drive, Columbia, MO	5,000	Owned	\$	1,162
115 South 2 <sup>nd</sup> Street, Drexel, MO	115 South 2 <sup>nd</sup> Street, Drexel, MO	4,000	Owned	\$	68
100 Plaza Drive, Harrisonville, MO	100 Plaza Drive, Harrisonville, MO	4,000	Owned	\$	472
17430 East 39 <sup>th</sup> Street, Independence, MO	17430 East 39 <sup>th</sup> Street, Independence, MO	4,070	Owned	\$	456
220 West White Oak, Independence, MO	220 West White Oak, Independence, MO	1,800	Owned	\$	20
132 East High Street, Jefferson City, MO	132 East High Street, Jefferson City, MO	34,800	Owned	\$	2,117
3701 West Truman Blvd, Jefferson City, MO	3701 West Truman Blvd, Jefferson City, MO	21,000	Owned	\$	306
211 West Dunklin Street, Jefferson City, MO	211 West Dunklin Street, Jefferson City, MO	2,500	Owned	\$	1,336
800 Eastland Drive, Jefferson City, MO	800 Eastland Drive, Jefferson City, MO	4,100	Owned	\$	523
3600 Amazonas Drive, Jefferson City, MO	3600 Amazonas Drive, Jefferson City, MO	26,000	Owned	\$	2,008
300 S.W. Longview Blvd, Lee's Summit, MO	300 S.W. Longview Blvd, Lee's Summit, MO	11,700	Owned	\$	1,615
5 Victory lane, Suite 203 & 204, Liberty, MO		1,667	Leased (3)	\$	N/A
5 Victory Lane, Suite 203 & 204, Liberty, MO			5 Victory Lane, Suite 203 & 204, Liberty, MO		1,667
					Leased (2) N/A
335 Chestnut, Osceola, MO	335 Chestnut, Osceola, MO	1,580	Owned	\$	55
595 VFW Memorial Drive, St. Robert, MO	595 VFW Memorial Drive, St. Robert, MO	2,236	Owned	\$	59
321 West Battlefield, Springfield, MO	321 West Battlefield, Springfield, MO	12,500	Owned	\$	961

1891 Commercial Drive, Warsaw, MO	1891 Commercial Drive, Warsaw, MO	11,000
12250 Weber Hill Rd Suite 125, St. Louis, MO	Owned 2,253	\$ 1,258
	Leased (4)	\$ N/A

(1) The term of this lease began in February 2019 and ends in January 2024.  
 (2) The term of this lease began in July 2018 and ends in July 2028.  
 (3) (2) The term of this lease began in May 2022 and ends in April 2023. October 2024.  
 (4) The term of this lease began in November 2020 and ends in December 2023.

Management believes that the current condition of each of the Bank's facilities is adequate for its business and that such facilities are adequately covered by insurance.

#### Item 3. Legal Proceedings.

The information required by this Item is set forth in Note 19, *Commitments and Contingencies*, in the Company's consolidated financial statements, included under the caption "Consolidated Financial Statement" in the Company's 2023 Annual Report to Shareholders for the year ended December 31, 2022 (included as Exhibit 13.1 hereto), incorporated herein by reference.

#### Item 4. Mine Safety Disclosures.

Not applicable

#### **EXECUTIVE OFFICERS OF THE REGISTRANT**

Executive officers of the Company are appointed by the board of directors and serve at the discretion of the board. The following table sets forth certain information with respect to all executive officers of the Company.

Name	Age	Position
David T. Turner	Brent M. Giles	66 Chairman, Chief Executive Officer and Director
Gregg A. Bexten	56	President and Director
Stephen Chris E. Guthrie Hafner	66	Senior Vice President and Chief Financial Officer
Jason E. Schwartz	56	Senior Vice President and Chief Credit Officer
Kathleen L. Brueghemke	57	Senior Vice President, Chief Risk Officer, Secretary and Director

The business experience of the executive officers of the Company for the last five years is as follows:

**David T. Turner** Brent M. Giles has served as a director and CEO of the Company and of the Bank since May 2023. Mr. Giles served as Chairman, President and Chief Executive Officer of Bank of Blue Valley from July 2021 until he joined the Company, and as President and Chief Executive Officer of Wisconsin Bank & Trust from May 2020 until July 2021. From September 2003 until May 2020, Mr. Giles served as Chairman and Chief Executive Officer of Liberty Bancorp, Inc. and Bank Liberty, where he took the company public. Bank Liberty has been recognized as a "best bank," "best place to work," and "strongest mid-size bank." Prior to 2003, Mr. Giles had several commercial banking roles of increasing responsibility and spent 9 years as an FDIC examiner. Mr. Giles received his bachelor's degree in banking and finance and his MBA both from the University of Missouri where he is still involved speaking to graduate banking classes.

**Gregg A. Bexten** has served as a director and president of the Company and of the Bank since May 2023. From 2014 until May 2023, he served as Regional President of our Central Region. From 2000 until 2014 he served as a commercial lender in our Central Region with titles of Senior Vice President and Vice President. Prior to joining the Bank, Mr. Bexten served as a commercial lender with another financial institution and as a Commissioned Bank Examiner for the Federal Reserve Bank of St. Louis. Mr. Bexten possesses considerable expertise in overseeing lending, various finance and regulatory compliance aspects of community banking, which he attained through over 30 years of service, first as a bank regulator and then as a dedicated, tenured employee of the Bank.

**Chris E. Hafner** has served as Chief Financial Officer of the Company and of the Bank since October 2023. Mr. Hafner served as an outside banking and business consultant to several entities from December 2022 until he joined the Company and the Bank. Mr. Hafner previously served as Chief Accounting Officer of CrossFirst Bank, the bank subsidiary of CrossFirst Bankshares, Inc., a Nasdaq-listed bank holding company, from February 2016 until November 2022. Prior to that, he served as Chief Financial Officer at Missouri Bank, a privately held bank, from June 2015 until January 2016, and as Chief Risk Officer at Missouri Bank from April 2012 until May 2015. Prior to joining Missouri Bank, he served as Chief Financial Officer at First National Bank of Kansas, a privately held bank, from August 2005 until December 2011 and, prior to that, he served as Assistant Controller at Commerce Bancshares, Inc., a Nasdaq-listed bank holding company, from June 2000 until July 2005. He served in various roles in the audit practice of Forvis, LLP (formerly BKD LLP) from July 1994 until June 2000. Chris received a Bachelor of Business Administration degree from Iowa State University. He has been previously licensed as a Certified Public Accountant.

**Jason E. Schwartz** has served as the Chief Credit Officer of the Company and of the Bank since December 2018. From 2014 to 2018, he served as the Regional Senior Credit Officer for our Central Region. From 2000 until 2014 he served as a commercial lender in our Central Region with titles of Senior Vice President and Vice President. Mr.

Schwartz possesses considerable expertise in overseeing lending, various finance, and regulatory compliance aspects of community banking, which he attained through over 20 years of service, first at City National Savings Bank and then as an employee of the Bank.

*Kathleen L. Bruegenhemke* has served as a director of the Company and of the Bank (or of its constituent predecessors) since January 1997. He has served as president of the Company since March 2002 and as chairman and chief executive officer of the Company since 2017. From January 2011. He also currently serves as chairman, chief executive officer and president of the Bank. Mr. Turner 2017 until November 2023, she served as vice chairman of the Company from June 1998 through March 2002 and as senior vice president of the Company from 1993 until June 1998. He served as president of a predecessor to the Bank from January 1997 through March 2002 when he assumed the position of chairman, chief executive officer and president. He served as senior vice president of that same predecessor from June 1992 through December 1996 and as its vice president from 1985 until June 1992.

*Stephen E. Guthrie* has served as Senior Vice President and Chief Financial Officer of the Company and of the Bank since May 2020. Prior to joining the Company, he most recently served as Executive Vice President and Chief Financial Officer of Landmark Bank in Columbia, Missouri, the wholly-owned subsidiary of The Landrum Company, from 2010 to 2020. The Landrum Company was recently acquired by Simmons First National Corporation, holding company for Simmons Bank. Mr. Guthrie served as Senior Vice President, Internal Audit and Risk & Controls for Capmark Finance Inc. from September 2006 to May 2010. From 2003 to 2006, Mr. Guthrie served as Vice President, Internal Audit and Corporate Security for AT&T Corp. From 2000 to 2003, Mr. Guthrie served as Vice President, Auditing Services for Pharmacia Corporation. From 1979 to 2000 Mr. Guthrie served in various capacities with Monsanto Company, serving as Chief Financial Officer of Monsanto Canada, Inc. from 1999 to 2000. Mr. Guthrie is a licensed CPA.

*Kathleen L. Bruegenhemke* has served as a director of our Company and of the Bank since March 2017 and as Chief Operating Officer of the Bank since January 2017. Bank. From October 2014 until December 2016 she served as Columbia Market President of Hawthorn for the Bank. She has served as Senior Vice President and Secretary of the Company since November 1997 and as Chief Risk Officer of the Company since June 2006. From January 1992 until November 1997, she served as Internal Auditor of the Bank (or of one of its constituent predecessors). Prior to joining the Bank, Ms. Bruegenhemke served as a Commissioned Bank Examiner for the FDIC. Ms. Bruegenhemke is a certified public accountant and possesses considerable expertise in overseeing various finance, regulatory compliance and risk management aspects of community banking, which she attained through over 30 years of service, first as a bank regulator and then as a dedicated employee of the Bank.

There is no arrangement or understanding between any executive officer and any other person pursuant to which such executive officer was selected as an officer.

## **PART II**

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Pursuant to General Instruction G(2) to Form 10-K, the information required by this Item, other than that referred to below, is incorporated herein by reference to the information under the caption "Market Price of and Dividends on Equity Securities and Related Matters" in the Company's 2022 2023 Annual Report to Shareholders, Shareholders (included as Exhibit 13 hereto).

We refer you to Item 12 of this report under the caption "Securities Authorized For Issuance Under Equity Compensation Plans" for certain equity plan information.

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

There were no purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined by applicable rules of the SEC) of shares of the Company's common stock during the fourth quarter of the year ended December 31, 2022 December 31, 2023. The Pursuant to the Company's 2019 Repurchase Plan, was amended during the second quarter of 2021 to authorize the purchase of up to \$5.0 million in market value of the Company's common stock. Management was management is given discretion to determine the number and pricing of the shares to be purchased under the plan, as well as the timing of any such purchases. As of December 31, 2022 December 31, 2023, \$2.1 million remained \$5.0 million remains available for share repurchase repurchases pursuant to that authorization. the plan.

#### **Recent Issuance of Securities**

None.

### **Item 6. [Reserved].**

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

Pursuant to General Instruction G(2) to Form 10-K, the information required by this Item is incorporated herein by reference to the information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2022 2023 Annual Report to Shareholders, Shareholders (included as Exhibit 13 hereto).

#### **Forward-Looking Statements**

This report, including information included or incorporated by reference in this report, contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, strategy, future performance and business of the Company and its subsidiaries, 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" 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 the Company's loans and other assets,
- increases in non-performing assets in the Company's loan portfolios and adverse economic conditions may necessitate increases to the provisions for loan credit losses,
- costs or difficulties related to the integration of the 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, and
- changes may occur in the securities markets.

We have described additional factors that could cause actual results to be materially different from those described in the forward-looking statements, which factors are identified in Item 1A of this report under the heading "Risk Factors." Other factors that we have not 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 such statement is made. Except as otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The Company's exposure to market risk is reviewed on a regular basis by our Bank's asset/liability committee and board of directors. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income. Management realizes certain risks are inherent and that the goal is to identify and minimize those risks.

Tools used by the Bank's management include modeling the effects on net interest income under different rate shock scenarios. At December 31, 2022 December 31, 2023, the Company's rate shock scenario models indicated that annual net interest income could change by as much as 3.01% 5.92% or 5.80% 7.05% should interest rates rise or fall, respectively, 200 basis points from their current level over a one-year period. These levels of interest rate risk are within limits set by the board in the Company's *Funds Management, Investment Asset Liability Policy* and Management believes this is an acceptable level of interest rate risk. However, there are no assurances that the change will not be more or less than this estimate.

Pursuant to General Instruction G(2) to Form 10-K, the information required by this Item, other than that provided above, is incorporated herein by reference to the information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Quantitative and Qualitative Disclosures About Market Risk" in the Company's 2022 2023 Annual Report to Shareholders. Shareholders (included as Exhibit 13 hereto).

#### **Item 8. Financial Statements and Supplementary Data.**

Pursuant to General Instruction G(2) to Form 10-K, the information required by this Item is incorporated herein by reference to the report of the independent registered public accounting firm and the information under the caption "Consolidated Financial Statements" in the Company's 2022 2023 Annual Report to Shareholders. Shareholders (included as Exhibit 13 hereto).

#### **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

#### **Item 9A. Controls and Procedures.**

##### **(a) Evaluation of Disclosure Controls and Procedures.**

As of the end of the period covered by this annual report, the Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) Act). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2022 December 31, 2023, the Company's disclosure controls and procedures were effective.

##### **(b) Management's Report on Internal Control Over Financial Reporting.**

The Company's management is responsible for establishing and maintaining effective adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rule 13a-15(f). Under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal

principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting, as of December 31, 2022 December 31, 2023, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (2013). Based upon its assessment, management has concluded that, as of December 31, 2022 December 31, 2023, the Company's internal control over financial reporting, is effective based on the criteria established in *Internal Control-Integrated Framework* (2013).

Management's assessment of the effectiveness of internal control over financial reporting, as of **December 31, 2022** **December 31, 2023**, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

**(c) Changes in Internal Control over Financial Reporting.**

There ~~have~~ has been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended **December 31, 2022** **December 31, 2023** that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Hawthorn Bancshares, Inc.:

*Opinion on Internal Control Over Financial Reporting*

We have audited Hawthorn Bancshares, Inc. and subsidiaries' (the Company) internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of **December 31, 2022** **December 31, 2023** and **2021**, 2022, the related consolidated statements of income, comprehensive ~~income~~ income ~~loss~~ income, stockholders' equity, and cash flows for each of the years in the three-year period ended **December 31, 2022** **December 31, 2023**, and the related notes (collectively, the consolidated financial statements), and our report dated **March 29, 2023** **March 18, 2024** expressed an unqualified opinion on those consolidated financial statements.

*Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s / KPMG LLP

St. Louis, Missouri

March **29, 2023** **18, 2024**

**Item 9B. Other Information.**

None

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

None

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

Pursuant to General Instruction G(3) to Form 10-K, the information required by this Item, other than that referred to below, is incorporated herein by reference to:

- (i) the information under the caption "Item 1: Election of Directors--What is the structure of our board and how often are directors elected?" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A;
- (ii) the information under the caption "Item 1: Election of Directors--Who are this year's nominees?" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A;
- (iii) the information under the caption "Item 1: Election of Directors--What is the business experience of the nominees and of our continuing board members?" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A;
- (iv) the information under the caption "Executive Officers of the Registrant" in Part I of this report;
- (v) the information under the caption "Delinquent Section 16(a) Reports" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A;
- (vi) the information under the caption "Corporate Governance and Board Matters--Consideration of Director Nominees" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A; and
- (vii) the information under the caption "Corporate Governance and Board Matters--Committees of the Board--Audit Committee" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

#### **Code of Ethics**

The Company has adopted a Code of Business Conduct and Ethics for directors, officers and employees including, its principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions. This Code of Business Conduct and Ethics is posted on the Company's internet website ([www.hawthornbancshares.com](http://www.hawthornbancshares.com)) under the "Governance Documents" menu tab and is available for your examination. A copy of this code will be furnished without charge upon written request to Corporate Secretary, Hawthorn Bancshares, Inc., 132 East High Street, Jefferson City, Missouri 65101. Any substantive amendment to, or waiver from, a provision of this code that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, controller, or persons performing similar functions will be disclosed on the Company's internet website ([www.hawthornbancshares.com](http://www.hawthornbancshares.com)) and, if required by the rules of the SEC or The Nasdaq Stock Market LLC, in a report on Form 8-K. reports the Company files with the SEC.

#### **Item 11. Executive Compensation.**

Pursuant to General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to:

- (i) the information under the caption "Executive Compensation and Related Matters" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A; and
- (ii) the information under the caption "Corporate Governance and Board Matters--Director Compensation" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Pursuant to General Instruction G(3) to Form 10-K, the information required by this Item, other than that presented below, is incorporated herein by reference to the information under the caption "Ownership of Common Stock" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

#### **Securities Authorized For Issuance Under Equity Compensation Plans**

The Company has no information pertaining to equity compensation plan for its employees pursuant to which options, rights, warrants or other equity awards may be granted. As plans is contained in "Part II - Item 8. Financial Statements and Supplementary Data - Note 12 - Stockholders' Equity and Accumulated Other Comprehensive Income (Loss) Equity-Based Compensation Plan." of December 31, 2022 the Company had no outstanding options, rights or warrants granted under any equity compensation plan. Company's 2023 Annual report and are incorporated herin by reference.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Pursuant to General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to:

- (i) the information under the caption "Related Party Transactions" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A;
- (ii) the information under the caption "Item 1: Election of Directors--What is the structure of our board and how often are directors elected?" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A; and
- (iii) the information under the caption "Corporate Governance and Board Matters--Committees of the Board" in the Company's definitive Proxy Statement for its 2023 2024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

#### **Item 14. Principal Accountant Fees and Services.**

Pursuant to General Instruction G(3) to Form 10-K, the information required by this Item is incorporated herein by reference to the information under the caption "Independent Registered Public Accounting Firm Fees and Services" in the Company's definitive Proxy Statement for its 20232024 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

#### **PART IV**

##### **Item 15. Exhibits and, Financial Statement Schedules.**

(a) Exhibits, Financial Statements and Financial Statement Schedules:

1. Financial Statements:

The following consolidated financial statements of the Company and reports of the Company's independent registered public accounting firm, included in the Company's 2023 Annual Report to Shareholders for the year ended December 31, 2022 (included as Exhibit 13 hereto) under the caption "Consolidated Financial Statements", are incorporated herein by reference:

Report of Independent Registered Public Accounting Firm.

Auditor Name: KPMG LLP

Auditor Location: St. Louis, MO

Auditor Firm ID: 185

Consolidated Balance Sheets as of December 31, 2022 December 31, 2023 and 2021, 2022.

Consolidated Statements of Income for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021.

Consolidated Statements of Comprehensive Income (Loss) Income for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021.

Consolidated Statements of Cash Flows for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021.

Notes to the Consolidated Financial Statements.

2. Financial Statement Schedules:

Financial statement schedules have been omitted because they either are not required or are not applicable or because equivalent information has been included in the financial statements, the notes thereto or elsewhere herein.

3. Exhibits:

Exhibit No.	Description
3.1	<a href="#">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).</a>
3.2	<a href="#">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).</a>
4.1	<a href="#">Description of the Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (filed as Exhibit 4.0 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and incorporated herein by reference).</a>
4.2	<a href="#">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).</a>
10.1	<a href="#">Form of Change of Control Severance Agreement and schedule of parties thereto (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period March 31, 2005 and incorporated herein by reference) 10-K.*</a>
10.2	<a href="#">Hawthorn Bancshares, Inc. Excess Benefit Plan (filed as Exhibit 10.2 to the Company's current report on Form 8-K on November 13, 2018 and incorporated herein by reference).*</a>
10.3	<a href="#">Hawthorn Bancshares, Inc. Equity Incentive Plan (filed as Exhibit 10.1 to the Company's current report on Form 8-K on November 13, 2018 June 12, 2023 and incorporated herein by reference).*</a>
10.4	<a href="#">Form of Hawthorn Bancshares, Inc. Equity Incentive Plan Restricted Stock Unit Award (Service-Based Vesting) (filed as Exhibit 10.2 to the Company's current report on Form 8-K on June 12, 2023 and incorporated herein by reference).*</a>
13	<a href="#">The Company's 2023 Annual Report to Shareholders (only those portions of this Annual Report to Shareholders which are specifically incorporated by reference into this Annual Report on Form 10-K shall be deemed to be filed with the Commission)SEC).</a>
14	<a href="#">Code of Business Conduct and Ethics of the Company (filed as Exhibit 14 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and incorporated herein by reference).</a>
21	<a href="#">List of Subsidiaries (filed as Exhibit 21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and incorporated herein by reference).</a>
23	<a href="#">Consent of Independent Registered Public Accounting Firm.</a>

Exhibit No.	Description
24	Power of Attorney (included on the signature page to this Annual Report on Form 10-K).
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.</a>

Exhibit No.	Description
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.</a>
32.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
97.1	<a href="#">Policy for the Recovery of Erroneously Awarded Compensation filed as Exhibit 97.1 to this Annual Report on Form 10-K.</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).

\* Management contracts or compensatory plans or arrangements required to be identified by Item 15(a).

(b) Exhibits.

See exhibits identified above under Item 15(a)3.

(c) Financial Statement Schedules.

See financial statement schedules identified above under Item 15(a)2, if any.

#### Item 16. Form 10-K Summary.

None

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: March 29, 2023 March 18, 2024

By /s/ David T. Turner Brent M. Giles

David T. Turner, Chairman of the Board,

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

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David T. Turner Brent M. Giles and Stephen Chris E. Guthrie, Hafner, or either of them, his attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date	Signature and Title
March 29, 2023	/s/ David T. Turner Brent M. Giles
	David T. Turner, Chairman of the Board, President and Brent M. Giles, Chief Executive Officer (Principal Executive Officer) and Director
March 29, 2023	/s/ Stephen Chris E. Guthrie Hafner
	Stephen Chris E. Guthrie, Hafner, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
March 29, 2023	/s/ Gregg A. Bexten
	Gregg A. Bexten, President, Director
March 18, 2024	/s/ Kathleen L. Brueghemke
	Kathleen L. Brueghemke, Director
March 29, 2023	/s/ David T. Turner
	David T. Turner, Executive Chairman, Director
March 18, 2024	/s/ Frank E. Burkhead
	Frank E. Burkhead, Director
March 29, 2023	/s/ Philip D. Freeman
	Philip D. Freeman, Director
March 29, 2023	/s/ Kevin L. Riley
	Kevin L. Riley, Director
March 29, 2023	/s/ Gus S. (Jack) Wetzel III
	Gus S. (Jack) Wetzel III, Director
March 29, 2023	/s/ Shawna M. Hettinger
	Shawna M. Hettinger, Director
March 18, 2024	/s/ Jonathan L. States
	Jonathan L. States, Director
March 18, 2024	/s/ Douglas T. Eden
	Douglas T. Eden, Director
March 18, 2024	/s/ Jonathan D. Holtaway
	Jonathan D. Holtaway, Director
March 29, 2023	/s/ Jonathan L. States
	Jonathan L. States, Director
March 29, 2023	/s/ Shawna M. Hettinger
	Shawna M. Hettinger, Director

## CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT is dated as of \_\_\_\_\_, 2019, between Hawthorn Bancshares, Inc., a Missouri corporation (the "Company"), and \_\_\_\_\_ ("Executive").

#### RECITALS

A. Executive is a valued employee of the Company or of Hawthorn Bank, a wholly-owned subsidiary of the Company (the "Bank").

B. The Board of Directors of the Company believes that it is in the best interests of the Company and its shareholders (i) to provide assurance that the Company and its subsidiaries, including the Bank, will have the continued service of Executive notwithstanding the possibility, threat or occurrence of a Change of Control (as defined in Section 1), (ii) to diminish the distraction to Executive that may arise by virtue of the personal uncertainties and risks created by a threatened or pending Change of Control, and (iii) to encourage Executive's full attention and dedication to the Company and its subsidiaries, including the Bank, currently and in the event of a threatened or pending Change of Control;

#### AGREEMENT

In consideration of the premises and the mutual agreements contained herein, the parties hereto agree as follows:

1. Certain Definitions. As used in this Agreement, unless otherwise defined herein or unless the context otherwise requires, the following terms shall have the following meanings:

(a) "Agreement" means this Change in Control Severance Agreement as amended from time to time.

(b) "Beneficial Owner" shall have the same meaning as set forth in Rule 13d-3 of the Exchange Act.

(c) "Board" means the Board of Directors of Hawthorn Bancshares, Inc.

(d) "Cause" means (i) fraud, embezzlement, or material misappropriation of any funds of the Company or any Subsidiary, any Confidential Information or any property of the Company or any Subsidiary; (ii) indictment for or the conviction of, or the entering of a guilty plea or plea of no contest with respect to, a felony, or the equivalent thereof, or a misdemeanor involving fraud, embezzlement, theft, misappropriation or failure to be truthful; (iii) any willful action or omission by Executive which (A) (1) would constitute grounds for immediate dismissal under any employment policy of the Company or any Subsidiary, (2) is a material violation of such policy, and (3) in the determination of the Board, could result in damage, liability or reputational harm to the Company or any Subsidiary, including use of illegal drugs while on the

---

premises of the Company or any Subsidiary, or (B) is a violation of sexual harassment laws or the internal sexual harassment policy of the Company or any Subsidiary; or (iv) gross negligence or willful misconduct in performance of Executive's duties or in following reasonable instructions of the Board.

(e) "Change of Control" means the occurrence of one of the following events, whether in a single transaction or a series of related transactions:

(i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 35% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities, other than any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (A) of paragraph (iii) below; or

(ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: (A) individuals who, on the date hereof, constitute the Board and (B) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved; or

(iii) the consummation of, or the shareholders of the Company approve, a merger, consolidation, reorganization or similar corporate transaction of the Company, whether or not the Company is the surviving corporation in such transaction, other than (A) a merger, consolidation, or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under a Company Plan, at least 60% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger, consolidation or reorganization, or (B) a merger, consolidation or reorganization effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 20% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities; or

(iv) the occurrence of, or the shareholders of the Company approve a plan of, a complete liquidation or dissolution of the Company or an agreement for the sale or disposition by

---

the Company of all or substantially all of the Company assets, other than a sale or disposition of all or substantially all of the Company's assets to an entity, at least 60% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, no "Change in Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

(f) "Change of Control Period" means the period commencing on the date hereof and ending on the two (2) year anniversary of such date; provided, however, that commencing on a date one (1) year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof being hereinafter referred to as the "Renewal Date"), the Change of Control Period shall be automatically extended so as to terminate two (2) years from such Renewal Date, unless at least 90 days prior to the Renewal Date the Company shall give notice to Executive that the Change of Control Period shall not be so extended; provided, further that during any period of time when the Board has knowledge that any person has taken steps reasonably calculated to effect a Change in Control, no notice that the Change of Control Period shall not be so extended may be provided to Executive until, in the opinion of the Board, such person has abandoned or terminated its efforts to effect a Change in Control.

(g) "Company Plans" means (1) all incentive, savings, retirement, welfare benefit and fringe benefit plans, practices, policies and programs sponsored or maintained by the Company or any Subsidiary, (2) any expense reimbursement plan or policy of the Company or any Subsidiary for all reasonable out-of-pocket employment expenses incurred by Executive and (3) the provision of paid vacation time by the Company or any Subsidiary.

(h) "Confidential Information" means: (1) any and all trade secrets concerning the business and affairs of the Company or any Subsidiary, data, formulae, algorithms, compositions, processes, inventions and ideas, customer lists, market studies, business plans, computer software and programs (including object code and source code), computer software and database technologies, systems, structures, and architectures; (2) confidential information concerning the business and affairs of the Company or any Subsidiary (which includes confidential financial statements, financial projections and budgets, and capital spending plans); and (3) notes, analyses, compilations, studies, summaries, and other material prepared by or for the Company or the Bank containing or based, in whole or in part, or any information included in the foregoing, whether reduced to writing or not and which has not become publicly known or made generally available through no wrongful act of Executive or others who were under confidentiality obligations as to the item or items involved.

(i) "Date of Termination" means (i) if Executive's employment is terminated by the Company or the Bank, as applicable, for Cause, or by Executive for Good Reason, the date of receipt of the Notice of Termination or any later date permitted to be specified therein, as the

---

case may be, (ii) if Executive's employment is terminated by the Company or the Bank, as applicable, other than for Cause or Disability, the Date of Termination shall be the date on which the Company or the Bank notifies Executive of such termination, (iii) if Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of Executive or the Disability Effective Date (as defined in Section 2(a)), as the case may be, and (iv) if Executive's employment is terminated by Executive for other than Good Reason, the Date of Termination shall be the date on which Executive notifies the Company in writing of such termination or any later date permitted to be specified therein, as the case may be.

(j) The term "Disability" or "Disabled" shall mean an individual (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under a Company-sponsored accident or health plan.

(k) "Effective Date" means the first date on which a Change of Control occurs during the Change of Control Period.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as in effect on the date hereof.

(m) "Good Reason" means, without Executive's written consent, any of the following:

(i) Any material and adverse reduction or material and adverse diminution in Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities held, exercised or assigned at any time during the 90-day period immediately preceding the commencement of the Pre-CIC Protected Period;

(ii) Any reduction in Executive's annual base salary as in effect immediately preceding the commencement of the Pre-CIC Protected Period or as the same may be increased from time to time;

(iii) Any material reduction in the aggregate benefits received by Executive under Company Plans (as defined below) to less than the most favorable benefits provided to Executive by the Company or any Subsidiary under Company Plans at any time during the 90-day period immediately preceding the commencement of the Pre-CIC Protected Period;

(iv) Executive being required by the Company to be based at any office or location that is more than 35 miles from the location where Executive was employed immediately preceding the commencement of the Pre-CIC Protected Period; or

(v) Any failure by the Company to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the

---

business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, or any failure by any such successor after ten (10) days' notice from Executive to so perform under this Agreement;

Provided, however, notwithstanding the occurrence of any of the events set forth above in this definition, Good Reason shall not exist unless: (1)(A) within 90 days from Executive first acquiring actual knowledge of the existence of the Good Reason condition described in this definition, Executive provides the Company written notice of Executive's intention to terminate employment for Good Reason, which shall include the specific termination

provision in this Agreement relied upon and a reasonably detailed description of the facts and circumstances claimed to support the existence of Good Reason for termination; (B) such grounds for termination (if susceptible to correction) are not corrected by the Company within 45 days of Company's receipt of such notice (or, in the event that such grounds cannot be corrected within such 45-day period, the Company has not taken all reasonable steps within such 45-day period to correct such grounds as promptly as practicable thereafter); and (C) Executive terminates his or her services with Company immediately following expiration of such 45-day period, which shall include Executive's delivery to Board of a Notice of Termination.

(n) "Notice of Termination" means a written notice of termination which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated and (iii) if the Date of Termination is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than fifteen (15) days after the giving of such notice), unless another date is mutually agreed upon between Executive and the Company.

(o) "Person" has the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company or any Subsidiary, (2) a trustee or other fiduciary holding securities under a Company Plan, (3) an underwriter temporarily holding securities pursuant to an offering of the Company's securities, or (4) a corporation or other entity owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(p) "Post-Effective Period" means the period commencing on the Effective Date and ending on the two (2) year anniversary of such date.

(q) "Pre-CIC Protected Period" means the period that is within the Change in Control Period and begins when (A) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (B) the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; (C) any Person becomes the Beneficial Owner, directly or indirectly, of voting securities of the Company representing 10% or more of the combined voting power of the Company's then outstanding voting securities; or (D) the Board or the shareholders of the Company adopts a resolution approving any of the foregoing or approving any Change in

---

Control, and ends upon the date the Change in Control transaction is either consummated, abandoned or terminated (for this purpose, the Board shall have the sole and absolute discretion to determine that a proposed transaction has been abandoned).

(r) "Subsidiary" means any subsidiary of the Company, including the Bank.

## 2. Termination of Employment During the Post-Effective Period.

(a) Death or Disability. During the Post-Effective Period, Executive's employment shall terminate automatically upon Executive's death or, with written notice by the Company of its intention to terminate Executive's employment, upon Executive's Disability. In the event of a termination upon Executive's Disability, Executive's employment with the Company or the Bank, as applicable, shall terminate effective on the 90th day after receipt of such written notice by Executive (the "Disability Effective Date"), provided that within the 90 days after such receipt Executive shall not have returned to full-time performance of Executive's duties.

(b) Cause. The Company or the Bank, as applicable, may terminate Executive's employment at any time during the Post-Effective Period for Cause or without Cause. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause without (i) reasonable notice to Executive setting forth the reasons for the Company's or the Bank's intention to terminate for Cause, (ii) an opportunity for Executive, together with his or her counsel, to be heard before the Board within fifteen (15) days of such notice, and (iii) delivery to Executive of a Notice of Termination from the Board finding that, in the good faith opinion of the Board, Executive was guilty of conduct set forth in the definition of "Cause" in Section 1(d), and specifying the particulars thereof in reasonable detail.

(c) Good Reason. Executive's employment may be terminated by Executive at any time during the Post-Effective Period for Good Reason or without Good Reason.

(d) **Notice of Termination.** Any termination by the Company or the Bank, as applicable, for Cause, or by Executive for Good Reason, shall be communicated by Notice of Termination to the Company or Executive, as applicable, given in accordance with Section 11(b). The failure by Executive or by the Company or the Bank, as applicable, to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of Executive or the Company hereunder or preclude Executive or the Company from asserting such fact or circumstance in enforcing Executive's or the Company's rights hereunder.

**3. Obligations of the Company Upon Termination of Employment.**

(a) **Post-Effective Period Terminations Other Than for Cause, Death or Disability; Post-Effective Period Termination for Good Reason.** If, during the Post-Effective Period, the Company or the Bank, as applicable, shall terminate Executive's employment other than for Cause or on account of the death or the Disability of the Executive, or Executive shall terminate employment for Good Reason, the Company shall pay to Executive, in a lump-sum cash payment made within 30 days following the Date of Termination, as compensation for services

---

rendered to the Company, an amount equal to the aggregate of the following amounts set forth below in Sections 3(a)(i), (ii) and (iii).

(i) A cash amount equal to the sum of: (A) Executive's full annual base salary from the Company and its affiliated companies through the Date of Termination, to the extent earned but not theretofore paid; (B) any bonus earned with respect to the fiscal year of the Company immediately preceding the fiscal year in which the Change in Control (or if benefits are payable pursuant to Section 3(c), the Date of Termination) occurs under any Company Plan, to the extent not theretofore paid; (C) a bonus in an amount at least equal to the target incentive award payable pursuant to any annual incentive compensation Company Plan to Executive by the Company or any Subsidiary with respect to the fiscal year of the Company in which the Change in Control (or if benefits are payable pursuant to Section 3(c), the Date of Termination) occurs, multiplied by a fraction, the numerator of which is the number of days in the fiscal year in which the Date of Termination occurs through the Date of Termination and the denominator of which is 365 or 366, as applicable, to the extent not theretofore paid; and (D) any accrued unpaid vacation pay;

(ii) a cash amount equal to (A) 24 times the highest monthly base salary paid or payable to Executive by the Company and, if applicable, by the Bank in respect of the twelve- (12-) month period immediately preceding the month in which the Notice of Termination is given, plus (B) two (2) times the amount of Executive's total annual incentive compensation or bonus award paid or, but for a deferral under any deferred compensation Company Plan, would have been paid to Executive by the Company or, if applicable, by the Bank in respect of the year immediately preceding the year in which the Notice of Termination is given; and

(iii) a cash amount equal to twenty-four (24) times the total (Employer- and Executive-paid portions) monthly premium cost to cover the Employee and his or her eligible dependents, if any and if applicable, under the health, vision, dental, accident, disability, and life insurance plans sponsored by the Company or, if applicable, by the Bank, in effect as of the Date of Termination; provided that such amount will include the total (Employer- and Executive-paid portions) premium cost to cover Executive's eligible dependents if, and only to the extent that, such dependents were enrolled in a health, vision, dental, accident, disability, or life insurance plan sponsored by the Company or, if applicable, by the Bank, before the Date of Termination. This Section 3(a)(iii) shall not affect Executive's and his or her dependents' right to elect continuation coverage of insurance benefits as permitted by law, including pursuant to Code Section 4980B or any applicable state statute mandating health insurance continuation coverage.

(b) **Termination for Cause, Disability, Death or Other than for Good Reason.** If at any time during the Change in Control Period Executive's employment shall be terminated for Cause, Executive's employment is terminated due to Executive's death or Disability, or Executive terminates employment other than for Good Reason, this Agreement shall terminate without further obligation of the Company or the Bank, as applicable, to Executive other than (i) the obligation to pay to Executive his or her base salary through the Date of Termination, any incentive bonus and other compensation, payments and benefits for the most recently completed fiscal year and any accrued vacation pay, to the extent theretofore unpaid, which amounts shall

---

be paid to Executive in a lump sum in cash within 30 days of the Date of Termination, and (ii) the obligation to pay to Executive all amounts or benefits to which Executive is entitled for the period prior to the Date of Termination under any plan, program, policy, practice, contract or agreement of the Company and, if applicable, of any Subsidiary (excluding amounts otherwise required to be paid under this Section 3(b)), at the time such amounts or benefits are due.

(c) **Certain Terminations During Pre-CIC Protected Period.** If, during the Pre-CIC Protected Period, Executive's employment is terminated by the Company or, if applicable, by the Bank other than for Cause or Executive terminates his or her employment for Good Reason, then Executive shall be entitled to receive the same benefits he or she would be entitled to receive under Section 3(a) if such termination of employment would have occurred during the Post-Effective Period. Any benefits or payments to be paid pursuant to this Section 3(c) shall be paid in a lump-sum payment and, subject to Section 3(d), within 30 days following the termination of Executive's employment.

(d) **Payments to Executive Following Termination.** If (i) Executive is a "specified employee," as defined in Code section 409A(a)(1)(B)(i), (ii) any payment or benefit provided under this Agreement constitutes nonqualified deferred compensation subject to Section 409A of the Code, and (iii) Executive's employment is terminated, either by Executive or by the Company, due to any reason, other than Executive's death, then, notwithstanding Sections 3(a) or 3(c) of this Agreement, Executive shall not receive such payment pursuant to Sections 3(a) or 3(c) until the first business day after six (6) full months after Executive's Date of Termination.

#### 4. Section 280G.

(a) Notwithstanding any other provision of this Agreement, if it shall be determined that any payment or distribution by the Company or its affiliated companies to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or provided under other plans, agreements or arrangements) constitute Parachute Payments that would subject Executive to tax under Section 4999 of the Code, the Company shall direct the Accounting Firm to determine whether Executive will receive the total Parachute Payments or the Reduced Amount. Executive will receive the Reduced Amount if the Reduced Amount results in equal or greater Net After Tax Receipts than the Net After Tax Receipts that would result from Executive receiving the total Parachute Payments. Executive will receive the total Parachute Payments, and Executive will be responsible for the payment of any tax under Section 4999 of the Code, if the total Parachute Payments results in greater Net After Tax Receipts than would result from Executive receiving the Reduced Amount.

(b) Within fifteen (15) business days of the Company's direction the Accounting Firm shall provide the Company and Executive its detailed supporting calculations for its determination of whether, in accordance with Section 4(a), Executive should receive the Reduced Amount or the total Parachute Payments. If the Accounting Firm determines that the total Parachute Payments should be reduced to the Reduced Amount, the Accounting Firm shall furnish Executive with a written opinion that failure to report liability for tax under Section 4999 of the Code would not result in the imposition of a negligence or similar penalty.

---

(c) If the Accounting Firm determines that the total Parachute Payments should be reduced to the Reduced Amount, then the total Parachute Payments shall be adjusted by first reducing the amount of any Parachute Payments that are not subject to Section 409A of the Code (with the source of the reduction to be directed by Executive) and then by reducing the amount of any Parachute Payments that are subject to Section 409A of the Code (with the source of the reduction to be directed by Executive) in a manner that results in the best economic benefit to Executive (or, to the extent economically equivalent, in a pro rata manner).

(d) As provided in Section 4(a), it is the intention of the Company and Executive to reduce the total Parachute Payments under this Agreement and any other plan, agreement or arrangement only if the aggregate Net After Tax Receipts to Executive would thereby be increased. As a result of the uncertainty in the application of Sections 280G and 4999 of the Code at the time of the initial determination by the Accounting Firm, however, it is possible that amounts will have been paid or distributed to or for the benefit of Executive which should not have been so paid or distributed (an

"Overpayment") or that additional amounts which shall not have been paid or distributed to or for the benefit of Executive should have been so paid or distributed (an "Underpayment"), in each case, consistent with the calculation of the Reduced Amount. If the Accounting Firm, based either upon the assertion of a deficiency by the Internal Revenue Service against the Company or Executive which the Accounting Firm believes has a high probability of success or controlling precedent or other substantial authority, determines that an Overpayment has been made, any such Overpayment must be treated (if permitted by applicable law) for all purposes as a loan ab initio for which Executive must repay the Company together with interest at the applicable federal rate under Section 7872(f)(2) of the Code; provided, however, that no such loan may be deemed to have been made and no amount shall be payable by Executive to the Company if and to the extent that such deemed loan and payment would not either reduce the amount on which Executive is subject to tax under Section 4999 of the Code or generate a refund of such taxes. If the Accounting Firm, based upon controlling precedent or other substantial authority, determines that an Underpayment has occurred, the Accounting firm must promptly notify the Company of the amount of the Underpayment and such amount, together with interest at the applicable federal rate under Section 7872(f)(2) of the Code, must be paid to Executive.

(e) For purposes of this Agreement, the following terms have the indicated definitions:

(i) "Accounting Firm" means an independent registered public accounting firm selected by the Company that is not also the Company's then current accounting firm for annual audit purposes and that is not a firm serving as accountant or auditor for the individual, entity or group effecting the Change in Control.

(ii) "Net After Tax Receipt" means the present value (determined in accordance with Section 280G(d)(4) of the Code and the regulations thereunder) of the total Parachute Payments or Reduced Amount, as applicable, net of all taxes imposed on Executive with respect thereto under Sections 1, 3121 and 4999 of the Code, determined by applying the highest marginal rate under Section 1 of the Code.

---

(iii) "Parachute Payment" means a payment (under this Agreement or provided under other plans, agreements or arrangements) that is described in Section 280G(b)(2) of the Code, determined in accordance with Section 280G of the Code and the regulations thereunder.

(iv) "Reduced Amount" means the largest amount of Parachute Payments that is less than the total Parachute Payments and that may be paid to Executive without subjecting Executive to tax under Section 4999 of the Code.

(f) All fees and expenses of the Accounting Firm shall be paid solely by the Company.

(g) Any determination by the Accounting Firm under this Section 4 shall be binding upon the Company and Executive.

5. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any Subsidiary and for which Executive may qualify, nor shall anything herein limit or otherwise affect such rights as Executive may have under any contract or agreement with the Company or any Subsidiary. Amounts that are vested benefits or that Executive is otherwise entitled to receive at or subsequent to the Date of Termination under any plan, policy, practice or program or any contract or agreement with the Company or any Subsidiary shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement.

#### 6. Full Settlement; Resolution of Disputes.

(a) Except where Executive's employment is terminated for Cause, the Company's obligation to make any payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not Executive obtains other employment. Subject to Executive's agreement to repay certain fees and expenses as provided below in Section 6(b), the Company shall pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses that Executive may reasonably incur as a result of any dispute or contest (regardless of the outcome thereof) by the Company, Executive or others of the validity or enforceability of, or the existence of liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of

any contest by Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at one hundred twenty percent (120%) of the Federal Mid-Term Rate under Section 1274(d) of the Code.

(b) If there shall be any dispute or contest between the Company and Executive (i) in the event of any termination of Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by Executive

---

whether Good Reason existed, then the resolution of such dispute or contest shall be finally determined by arbitration, which may be initiated by either the Company or Executive, pursuant to the Federal Arbitration Act in accordance with the rules then in force of the American Arbitration Association. The arbitration proceedings shall take place in Jefferson City, Missouri or such other location as the parties in dispute hereafter may agree upon; and such proceedings will be conducted in the English language and shall be governed by the laws of the State of Missouri as such laws are applied to agreements between residents of the State entered into and to be performed entirely within the State. There shall be one arbitrator, as shall be agreed upon by the parties in dispute, who shall be an individual skilled in the legal and business aspects of the subject matter of this Agreement and of the dispute. In the absence of such agreement, each party in dispute shall select one arbitrator and the arbitrators so selected shall select a third arbitrator. In the event the arbitrators cannot agree upon the selection of a third arbitrator, such third arbitrator shall be appointed by the American Arbitration Association at the request of any of the parties in dispute. The arbitrators shall be individuals skilled in the legal and business aspects of the subject matter of this Agreement and of the dispute. The decision rendered by the arbitrator or arbitrators shall be accompanied by a written opinion in support thereof. Such decision shall be final and binding upon the parties in dispute without right of appeal, it being the intent of the parties that such decision, and, irrespective of any contrary provision of the laws of the State respecting rights of appeal, such decision may not be appealed. The burden of proving that Executive is not entitled to receive the amounts and the benefits contemplated by this Agreement shall be on the Company.

(c) In the event of such an arbitration and provided that Executive shall repay the following amounts, fees and expenses if the final and binding decision of the arbitrator(s) is that Executive's termination was for Cause or that Good Reason did not exist for termination of employment by Executive, (i) the Company shall advance to Executive all legal fees and expenses that Executive may reasonably incur as a result of any such action, and (ii) if a final and binding decision of the arbitrator(s) is not obtained by the six-month anniversary of the date the Company or Executive first provided notice to the other party of the dispute or contest (the "Dispute Notice"), the Company shall pay all amounts, and provide all benefits, to Executive and/or Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Sections 3(a) or 3(c) if such termination were by the Company without Cause or by Executive with Good Reason. If the final and binding decision of the arbitrator(s) is that Executive's termination was not for Cause or that Good Reason did exist for such termination by Executive then, (I) if such decision is before the six-month anniversary of the receipt of the Dispute Notice, Executive shall receive all payments and benefits contemplated by this Agreement, plus interest on any delayed payment or benefit at one hundred twenty percent (120%) of the Federal Mid-Term Rate under Section 1274(d) of the Code or (II) if such decision is after the six-month anniversary of the receipt of the Dispute Notice such that all payments and benefits contemplated by this Agreement have already been paid, Executive shall receive interest (calculated in the same manner as set forth above) for the six-month period the payments and provision of benefits were delayed. In no event may the arbitrator or arbitrators award any other damages or award of any kind. Notwithstanding the foregoing, nothing in this Agreement is intended to, or shall be construed as, affecting the rights and obligations of Executive and the Company to submit any dispute (other than such disputes

---

contemplated by, and resolved in accordance with Sections 6(b) and 6(c)) to the appropriate dispute resolution process in accordance with any applicable dispute resolution plan intended to provide a procedural mechanism, whether exclusive or non-exclusive, for the resolution of any and all disputes between the Company and its present or former employees.

(d) Nothing in this Section 6 or the following Section 7 shall preclude Executive from filing a charge of discrimination, or participating in an investigation, with the Equal Employment Opportunity Commission or comparable agency. However, Executive shall not and will not seek or accept any personal benefit from the Company, whether in monetary or other form, as part of or related to any proceeding initiated by any other person, agency or other governmental body of the United States or any other jurisdiction.

#### 7. Restrictive Covenants.

(a) Nondisclosure of Confidential Information. Executive shall hold in confidence for the benefit of the Company all Confidential Information. Executive agrees that Executive will not disclose any Confidential Information to any person or entity other than the Company and those designated by it, either during or subsequent to Executive's employment by the Company, nor will Executive use any Confidential Information, except (i) in the regular course of Executive's employment by the Company or any Subsidiary, without the prior written consent of the Company or (ii) as may otherwise be required by law or legal process. Notwithstanding the foregoing, nothing in this Agreement prohibits Executive from (i) reporting possible violations of federal or state law or regulation to any government agency or entity, including the EEOC, DOL, Department of Justice, Securities and Exchange Commission, Department of Defense, Congress, and any agency Inspector General ("Governmental Agencies"), (ii) communicating with any Government Agencies or otherwise participating in any investigation or proceedings that may be conducted by any Governmental Agency, including providing documents or other information, without notice to the Company, or (iii) making other disclosures that are protected under the whistleblower provisions of applicable law. Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (x) is made in confidence to a federal, state or local government official, either directly or indirectly, or to any attorney, and is made solely for the purpose of reporting or investigating a suspected violation of law or (y) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

(b) Actions Upon Termination; Assistance with Claims. Upon Executive's employment termination for whatever reason, Executive shall neither take or copy nor allow a third party to take or copy, and shall deliver to the Company all property of the Company and of any Subsidiary, including, but not limited to, all Confidential Information regardless of the medium (i.e., hard copy, computer disk, CD ROM, USB flash drive, email, external hard drive) on which the information is contained. During and after Executive's employment by the

---

Company, Executive will provide reasonable assistance to the Company in the defense of any claims or potential claims that may be made or threatened to be made against the Company in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative ("Proceeding") and will provide reasonable assistance to the Company in the prosecution of any claims that may be made by the Company in any Proceeding, to the extent that such claims may relate to Executive's employment by the Company. For the avoidance of doubt, reasonable assistance would not include Executive being required to provide information that could reasonably result in criminal or civil charges or penalties being assessed or imposed against Executive in his or her individual capacity. Executive shall, unless precluded by law, promptly inform the Company if Executive is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. Executive also shall, unless precluded by law, promptly inform the Company if Executive is asked to assist in any investigation (whether governmental or private) of the Company (or its actions), regardless of whether a lawsuit has then been filed against the Company with respect to such investigation. The Company shall reimburse Executive for all of Executive's reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys' fees and shall pay a reasonable per diem fee (equal to 1/250th of Executive's annual salary rate at Executive's Date of Termination) for Executive's services.

(c) Mutual Non-disparagement. Executive shall refrain from making any statements about the Company or the Bank or their respective officers or directors that would disparage, or reflect unfavorably upon the image or reputation of the Company, the Bank or any such officer or director. The Company and its Subsidiaries shall refrain from making any statements about Executive that would disparage, or reflect unfavorably upon the image or reputation of, Executive.

(d) Irreparable Harm. Executive acknowledges that: (i) Executive's compliance with this Section 7 is necessary to preserve and protect the Confidential Information, and the goodwill of the Company and its affiliates as going concerns; (ii) any failure by Executive to comply with the provisions of this Section may result in irreparable and continuing injury for which there may be no adequate remedy at law; and (iii) in the event that Executive should fail to comply with the terms and conditions of this Section, the Company shall be entitled, in addition to such other relief as may be

proper, to seek all types of equitable relief (including, but not limited to, the issuance of an injunction and/or temporary restraining order) as may be necessary to cause Executive to comply with this Section, to restore to the Company its property, and to make the Company whole.

(e) Unenforceability. If any provision(s) of this Section 7 shall be found invalid or unenforceable, in whole or in part, then such provision(s) shall be deemed to be modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Agreement, as the case may require, and this Agreement shall be construed and enforced to the maximum extent permitted by law, as if such provision(s) had been originally incorporated herein as so modified or restricted, or as if such provision(s) had not been originally incorporated herein, as the case may be.

---

8. Release. In consideration of and as a condition precedent to receiving any benefits under this Agreement, including those described in Section 3, Executive shall (i) execute and deliver to the Company a release of all claims arising prior to Executive's Date of Termination in such form as requested by the Company (specifically excluding claims relating to the enforcement of Executive's rights under this Agreement) within twenty-two (22) days following Executive's termination date (or any such longer period if required by applicable law and communicated to Executive) and (ii) not revoke the release during the seven (7) day period following the date that Executive executed the release.

9. Successors.

(a) This Agreement is personal to Executive and shall not be assignable by Executive without the prior written consent of the Company otherwise than by will or the laws of descent and distribution. If Executive should die while any amounts would still be payable to Executive hereunder if Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's heirs or representatives or, if there be no such designee, to Executive's estate.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

10. Prohibition of Payments by Regulatory Agencies. Notwithstanding anything to the contrary contained in this Agreement, the Company shall not be obligated to make any payment to Executive under this Agreement if the payment would violate any rule, regulation or order of any regulatory agency having jurisdiction over the Company or any Subsidiary; provided, however, that the Company covenants to Executive that it will take all reasonable steps to obtain any regulatory agency approvals that may be required in order to make payments to Executive as provided herein.

11. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors. This Agreement supersedes all previous agreements relating to the subject matter of this Agreement, written or oral, between the parties hereto and contains the entire understanding of the parties hereto.

---

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:

Hawthorn Bancshares, Inc.  
132 E. High Street  
Jefferson City, MO 65101  
Attention: Secretary  
132 E. High Street  
Jefferson City, MO 65101  
Attention: Secretary

If to the Executive:

Executive's address is set forth below Executive's signature hereto  
Executive's signature hereto

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which other provisions shall remain in full force and effect.

(d) This Agreement is intended to meet the requirements of Section 409A of the Code and may be administered in a manner that is intended to meet those requirements and shall be construed and interpreted in accordance with such intent. To the extent that any payment or benefit provided hereunder is subject to Section 409A of the Code, such payment or benefit shall be provided in a manner that will meet the requirements of Section 409A of the Code, including regulations or other guidance issued with respect thereto, such that the payment or benefit shall not be subject to the excise tax applicable under Section 409A of the Code. Any provision of this Agreement that would cause any payment or benefit to fail to satisfy Section 409A of the Code shall be amended (in a manner that as closely as practicable achieves the original intent of this Agreement) to comply with Section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under Section 409A of the Code. In the event additional regulations or other guidance is issued under Section 409A of the Code or a court of competent jurisdiction provides additional authority concerning the application of Section 409A with respect to the payments described in Section 4 of the Agreement, then the provisions of such Section shall be amended to permit such payments to be made at the earliest time permitted under such additional regulations, guidance or authority that is practicable and achieves the original intent of this Agreement.

(e) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(f) Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right Executive or the Company may have hereunder, including, without limitation, the right of Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

---

(g) This Agreement is not an employment agreement and nothing herein contained shall be construed as requiring the Company or any Subsidiary to employ Executive for any specific period. Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between Executive and the Company or any Subsidiary, as applicable, the employment of Executive by the Company or any Subsidiary is "at will" and may be terminated by either Executive or the Company or any Subsidiary, as applicable, at any time. Except as provided in Section 3(c), if prior to the Effective Date Executive's employment with the Company and its Subsidiaries, terminates, then Executive shall have no further rights under this Agreement.

(h) This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one agreement that is binding upon each of the parties hereto, notwithstanding that all parties are not signatories to the same counterpart.

[The remainder of this page intentionally has been left blank]

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand and pursuant to the authorization from its Board of Directors the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

Company:

HAWTHORN BANCSHARES, INC.

By: \_\_\_\_\_

Name:

Title:

Executive:

Name:

Executive's Address for purposes of Section 11(b):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Exhibit 13**

**2022 2023**

**ANNUAL REPORT**

**TO**

**SHAREHOLDERS**

**HAWTHORN BANCSHARES, INC.**

**Jefferson City, Missouri**



March 29, 2023 18, 2024

Dear Shareholders:

Given Transition and teamwork describe 2023 at Hawthorn Bancshares, Inc., and Hawthorn Bank.

In April, after 45 years with the recent events company, David Turner announced his retirement, and I was fortunate to be named Chief Executive Officer of this strong and storied community banking organization. Mr. Turner led the company through much of its growth and successfully guided it through some very difficult economic periods. I'm pleased that he will continue his commitment to the company as Chairman of the Board and that Gregg Bexten will step into the President role to ensure continuity of executive leadership.

Transition of executive leadership is never easy, but the industry uncertainty and volatility caused by three significant bank failures added to our challenge. The teamwork displayed by everyone at the company to navigate the executive leadership transition while supporting the needs of our clients and communities during uncertain times was remarkable. We demonstrated our strength and stability provided by a healthy balance sheet anchored with the clients and partnerships in the communities we serve.

Despite it being a year of transition and turbulence, the board and management collaborated on many initiatives to lay the groundwork to successfully navigate 2024 and beyond. I would like to mention five of these areas.

1. Added three experienced industry executives to complement the existing strong executive team.
2. Developed a strategic plan and identified the initiatives and priorities to deliver sustainable above average performance over time.
3. Launched "One Hawthorn", an initiative to develop a culture that fosters higher levels of employee engagement, cohesiveness, accountability, and performance.
4. Reduced personnel and branches as part of an overall focus on expense management and resource allocation.
5. Repositioned the balance sheet to provide improved earnings accretion, net interest margin, and return on assets in future periods.

The year ahead is likely to include continued economic uncertainty and an interest rate environment which is difficult to predict, but I'm confident in our community-based banking industry. I'd approach that has served us well for over 150 years. We will rely on the proven principles of safe and sound banking as we strive to be the progressive and innovative community banking option for businesses and families throughout our footprint.

I would be remiss if I didn't take this opportunity to remind you why I think you have chosen to invest in Hawthorn Bancshares, Inc., the holding company of Hawthorn Bank. We are a Missouri-based community bank with strong roots dating back more than 150 years. Our Midwest values are at the foundation of thank all our style of relationship banking in each of the communities we serve. Our long history employees for their dedication and record of success have contributed to our strong financial condition. We maintain levels of capital significantly above the thresholds required to be deemed "Well Capitalized". We maintain strong levels of liquidity and have access to multiple other sources of liquidity which allows us to continue our local investment strategy, and provide a backstop if issues arise. The credit quality of our loan portfolio also remains strong and is well diversified.

While we may see some continued volatility in the weeks ahead, rest assured, Hawthorn Bank is well positioned to operate "business as usual" – and will continue offering the same solid community banking our customers have grown to expect and deserve.

With that said, I am proud to report to you that the bank performed very well in 2022 and delivered another year of strong financial results. Hawthorn Bancshares, Inc. reported net income of \$20.8 million, down \$1.8 million, or 8%, and \$3.06 per diluted share, for the year ended December 31, 2022, compared to \$22.5 million, or \$3.27 per diluted share, for the prior year. While our reported net income fell 8%, we were very successful in securing and funding growth in loans of over 16%, or \$219 million which will continue to drive positive financial results going forward. The recent and rapid rise in interest rates effort during 2022 did significantly impact our cost of interest-bearing deposits and other borrowings needed to fund loan growth, a common theme extraordinary times. Together, we are seeing in our industry. Our net interest margin, fully taxable equivalent fell to 3.53% for the year 2022, compared to 3.62% for 2021. In 2022 as in 2021, we recorded negative provision expense, even after funding the loan loss reserve for record-setting loan growth in 2022.

Total net interest income for 2022 was \$58.8 million, an increase of \$0.2 million, or 0.4 %, from 2021. Included in net interest income is PPP fee income which amounted to \$0.4 million in 2022, compared to \$5.4 million in the prior year.

Total non-interest income for 2022 was \$14.0 million, a decrease of \$2.8 million, or 16.7%, from 2021. Driving the year-over-year reduction was the decrease in gain focused on sales of mortgage loans.

Total non-interest expense in 2022 was \$48.5 million, a decrease of \$0.4 million, or 0.9%, from 2021. Driving the year-over-year reduction was the decrease in legal fees due to recognition in 2021 of a one-time financial legal settlement totaling \$1.5 million.

The bank continues to maintain a strong capital position and finished the year with 10.76% in leverage capital and 13.85% in total risk-based capital, far exceeding the minimum regulatory requirements.

Cash dividends paid in 2022 of \$0.64 per share increased \$0.08 per share, or 14%, compared to \$0.56 per share in 2021. The Company's Board of Directors approved the Company's quarterly dividend of \$0.17 per common share for the first quarter of 2023, payable April 1, 2023 to shareholders of record as of March 15, 2023.

I remain committed to further improving earnings performance, sustaining sound and proper capital levels, and delivering a return to shareholders through payment of a regular dividend, in addition to share repurchases when appropriate.

As we begin 2023 with a strong capital base and coming off a year of strong earnings, we look forward to providing accessible and competitive banking services in the communities we serve. We are ever mindful of the fact that the delivery of traditional community banking services is also undergoing significant change in terms of improving the customer experience and delivering "all things digital". We are excited about our progress to-date in this regard, and our future initiatives. The Hawthorn Bank services delivery teams, management, Board of Directors and Advisory Board members are committed to continuing the growth of our strong community bank presence and delivering long-term value to our clients, communities, and shareholders.

Thank you for your investment in our company. We appreciate your support and the referrals you give prospective customers to your bank.

Sincerely,



David T. Turner, Brent M. Giles,

Chairman, CEO & President Chief Executive Officer

#### A WORD CONCERNING 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 the Company, Hawthorn Bancshares, Inc. (the "Company"), and its subsidiaries, 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* 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 loan losses;
- costs or difficulties related to the integration of the 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, rising interest rates;
- economic or other disruptions caused by acts of terrorism, war or other conflicts, including the Russia-Ukraine conflict, and the current recessionary economic environment; 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;
- the effects of the COVID-19 pandemic, or any resurgence thereof, or other external events may adversely affect the Company;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan credit losses, including as a result of the implementation of the credit impairment model for Current Expected Credit Losses ("CECL");

- the continued use, availability, technological changes, including potential cyber-security incidents and reliability of LIBOR and the risks related to other disruptions, or innovations to the transition from LIBOR to any alternate reference rate we may use; financial services industry, including as a result of the increased telework environment, and
- our ability to maintain sufficient liquidity, primarily through deposits, in light of recent events in the banking industry.

In addition to the disclosure in this report, we have 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, 2022 December 31, 2023, 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 or such other reports 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.

**HAWTHORN BANCSHARES, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**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 \$1.9 billion in assets at December 31, 2022 December 31, 2023, 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 ("SBA") loans, 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 and a comprehensive suite of cash 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, St. Louis, 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 its banking subsidiary 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 Company's subsidiary bank is a full-service bank that conducts general banking business, offering its customers checking and savings accounts, debit cards, certificates of deposit, safety deposit boxes and a wide range of lending services, including commercial and industrial loans, residential real estate loans, single payment personal loans, installment loans and credit card accounts. In addition, the Bank provides trust and brokerage services.

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

**Significant Developments and Transactions**

Each item listed below materially affects the comparability of our results of operations for each of the years in the three-years ended December 31, 2022, and our financial condition as of December 31 for each of the three-years ended, and may affect the comparability of financial information we report in future fiscal periods.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following 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 impact and any associated risks related to the Company's critical accounting policies and estimates on its business operations are discussed throughout *Management's*

*Discussion and Analysis of Financial Condition and Results of Operations*, where such policies affect the reported and expected financial results.

**Allowance for Loan Credit Losses**

Management has identified the accounting policy related to the allowance for loan credit losses ("ACL") as critical to the understanding of the Company's results of operations, since the application of this policy requires significant management assumptions and estimates that could result in materially different amounts to be reported if conditions or underlying circumstances were to change.

The Company's allowance for loan losses ACL represents management's best estimate of losses inherent in the loan portfolio. The policy is designed to maintain the allowance at a level sufficient to absorb reasonably estimated and probable losses within the portfolio. A mathematical calculation of an estimate is made to assist in determining the adequacy and

reasonableness of management's recorded allowance for loan losses. **ACL**.

The Company's methodology includes qualitative risk factors that allow management to adjust its estimates of modeled historical losses based on the most recent information available and to address other limitations in the quantitative component that is based on modeled historical loss rates. Such risk factors are generally reviewed and updated quarterly, as appropriate, and are adjusted to reflect changes in national and local economic conditions, and developments, other external factors, the nature, volume and terms of loans in the portfolio, including changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans, loan concentrations, assessment of trends in collateral values, assessment of changes in the quality of the Company's internal loan review department, lending management, and changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices, procedures. At December 31, 2023, the **ACL** on loans included a qualitative adjustment of approximately \$10.9 million.

The ending result of this process is a recorded consolidated allowance for loan losses **ACL** that represents management's best estimate of the total incurred modeled losses included in the **loan** portfolio considering available information from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for loan losses **ACL** is dependent upon a variety of factors beyond the Company's control, including the performance of its portfolios, the economy, and changes in interest rates. As such, significant downturns in circumstances relating to **loan instrument** quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in **loan instrument** quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on the Company's **Provision provision** for credit losses and allowance for loan losses **ACL** reported in its Consolidated Income Statements and Consolidated Balance Sheets, respectively.

Further discussion of the methodology used in establishing the allowance and the impact of any associated risks related to these policies on the Company's business operations is provided in Note 1 to the Company's consolidated financial statements and is also discussed in the *Lending and Credit Management* section below.

#### Consolidated Financial Highlights 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.

For the years ended December 31,				For the years ended December 31,		
(In thousands, <i>in thousands, except per share amounts</i> )				2023	2022	2021
<b>Statement of income information:</b>						
Total interest income	Total interest income	\$69,256	\$64,454	\$62,985		
Total interest income						
Total interest expense	Total interest expense	10,493	5,909	9,722	Total interest expense	
Net interest income	Net interest income	58,763	58,545	53,263	Net interest income	
(Release of) provision for loan losses	(Release of) provision for loan losses	(900)	(1,700)	5,800		
Provision for (release of) credit losses (2)	Provision for (release of) credit losses (2)			2,340	(900)	(1,700)
Non-interest income	Non-interest income	13,978	16,786	14,973	Non-interest income	
Investment securities (losses) gains, net	Investment securities (losses) gains, net	(14)	149	61	Investment securities (losses) gains, net	
				(11,547)	(14)	149

Non-interest expense	Non-interest expense	48,538	48,966	45,021	Non-interest expense	52,359	48,538	48,966
Pre-tax income	Pre-tax income	25,089	28,214	17,476	Pre-tax income	432	25,089	28,214
Income taxes		4,338	5,697	3,183				
Income taxes (benefit)					Income taxes (benefit)	(524)	4,338	5,697
Net income	Net income	\$ 20,751	\$ 22,517	\$ 14,293	Net income	\$ 956	\$ 20,751	\$ 22,517
Basic earnings per share	Basic earnings per share	\$ 3.06	\$ 3.27	\$ 2.04				
Diluted earnings per share	Diluted earnings per share	\$ 3.06	\$ 3.27	\$ 2.04				
Efficiency ratio (1)	Efficiency ratio (1)	66.73 %	65.00 %	65.98 %	Efficiency ratio (1)	78.5 %	66.7 %	65.0 %
Net interest spread		3.26 %	3.45 %	3.25 %				
Net interest margin	Net interest margin	3.53 %	3.62 %	3.48 %				
Net interest margin					Net interest margin	3.29 %	3.53 %	3.62 %

As of and for the years ended December 31,								
2022								
As of and for the years ended December 31,								
As of and for the years ended December 31,								
As of and for the years ended December 31,								
2023								
2023								
2023								
<b>Key financial ratios:</b>								
<b>Key financial ratios:</b>								
Key financial ratios:	Key financial ratios:							
Book value per share	Book value per share	\$ 18.76		\$ 21.66		\$ 18.64		
Book value per share								
Book value per share								
Market price per share								
Market price per share								
Market price per share	Market price per share	\$ 21.77		\$ 24.94		\$ 20.25		
Cash dividends paid on common stock	Cash dividends paid on common stock	\$ 4,240		\$ 3,616		\$ 3,030		
Cash dividends paid on common stock								
Cash dividends paid on common stock								
Common stock dividend								
Common stock dividend	Common stock dividend	\$ 6,865		\$ 5,385		\$ 3,829		
Return on average assets	Return on average assets	1.16 %		1.30 %		0.88 %		
Return on average assets								

Return on average assets							
Return on average common equity							
Return on average common equity							
Return on average common equity	Return on average common equity	15.94	%	16.46	%	11.74	%
Average stockholders' equity to average total assets	Average stockholders' equity to average total assets	7.27	%	7.89	%	7.48	%
Average stockholders' equity to average total assets							
Average stockholders' equity to average total assets							

1. Efficiency ratio is calculated as non-interest expense as a percentage of revenue. Total revenue **includes** is calculated as net interest income **and plus** non-interest income.

2. Prior to adoption of ASU No 2016-13 on January 1, 2023, credit losses were estimated using the incurred loss approach.

As of and for the years ended December 31,									
As of and for the years ended December 31,									
As of and for the years ended December 31,									
<i>(in thousands, except per share amounts)</i>									
<i>(in thousands, except per share amounts)</i>									
<i>(in thousands, except per share amounts)</i>		<i>(in thousands, except per share amounts)</i>		2022	2021	2020			
<b>Asset Quality Ratios</b>		<b>Asset Quality Ratios</b>							
<b>Asset Quality Ratios</b>									
<b>Asset Quality Ratios</b>									
Net-charge-offs (recoveries)									
Net-charge-offs (recoveries)									
Net-charge-offs	Net-charge-offs	\$	\$	415	\$ (490)	\$ 164			
(recoveries)	(recoveries)								
Non-performing loans	Non-performing loans	\$	\$	18,701	\$ 25,473	\$ 34,576			
Non-performing loans									
Non-performing loans									
Classified assets	Classified assets	\$	\$	95,137	\$ 108,322	\$ 144,368			
Allowance for loan losses to total loans		1.02	%		1.30	%	1.41		
Allowance for loan losses to total loans							%		
Classified assets									
Classified assets									
Allowance for credit losses to total loans (2)									
Allowance for credit losses to total loans (2)									
Allowance for credit losses to total loans (2)									
Non-performing loans to total loans	Non-performing loans								
to total loans	to total loans			1.23	%	1.96	%		
Non-performing assets to total loans				1.81	%	2.76	%		
Non-performing assets to total assets				1.43	%	1.97	%		
Performing TDRs to loans				0.11	%	0.14	%		
Allowance for loan losses to non-performing loans				83.35	%	66.36	%		
Non-performing loans to total loans									
Non-performing loans to total loans									
Non-performing assets to loans									
Non-performing assets to loans									
Non-performing assets to loans									
Non-performing assets to assets									

Non-performing assets to assets						
Non-performing assets to assets						
Allowance for credit losses to non-performing loans						
Allowance for credit losses to non-performing loans						
Allowance for credit losses to non-performing loans						
<b>Capital Ratios</b>						
<b>Capital Ratios</b>						
<b>Capital Ratios</b>	<b>Capital Ratios</b>					
Stockholders' equity to assets	Stockholders' equity to assets	6.62	%	8.13	%	7.53 %
Stockholders' equity to assets						
Stockholders' equity to assets						
Total risk-based capital ratio						
Total risk-based capital ratio						
Total risk-based capital ratio	Total risk-based capital ratio	13.85	%	14.79	%	14.97 %
Tier 1 risk-based capital ratio	Tier 1 risk-based capital ratio	12.52	%	13.59	%	13.37 %
Tier 1 risk-based capital ratio						
Tier 1 risk-based capital ratio						
Common equity Tier 1 capital	Common equity Tier 1 capital	9.89	%	10.22	%	10.00 %
Common equity Tier 1 capital						
Common equity Tier 1 capital						
Tier 1 leverage ratio (1)						
Tier 1 leverage ratio (1)						
Tier 1 leverage ratio (1)	Tier 1 leverage ratio (1)	10.76	%	11.01	%	10.19 %
<b>Balance sheet information:</b>	<b>Balance sheet information:</b>					
<b>Balance sheet information:</b>						
Cash and cash equivalents						
Cash and cash equivalents						
Cash and cash equivalents						
Total assets						
Total assets						
Total assets	Total assets	\$ 1,923,540		\$ 1,831,550		\$ 1,733,731
Loans held for investment	Loans held for investment	1,521,252		1,302,133		1,286,967
Allowance for loan losses		(15,588)		(16,903)		(18,113)
Loans held for investment						
Loans held for investment						
Allowance for credit losses (2)						
Allowance for credit losses (2)						
Allowance for credit losses (2)						
Loans held for sale						
Loans held for sale						
Loans held for sale	Loans held for sale	591		2,249		5,099
Investment securities	Investment securities	257,100		316,278		204,383

Investment securities				
Investment securities				
Deposits				
Deposits				
Deposits	Deposits	1,632,079	1,516,820	1,383,606
Total stockholders' equity	Total stockholders' equity	127,411	148,956	130,589
Total stockholders' equity				
Total stockholders' equity				

(1) Tier 1 leverage ratio is calculated by dividing Tier 1 capital by average total consolidated assets and still accruing interest assets.

(2) Prior to adoption of ASU No 2016-13 on January 1, 2023, credit losses were estimated using the incurred loss approach.

### Results of Operations Highlights

**Consolidated net income** decreased \$19.8 million to \$1.0 million, or \$0.14 per diluted share, for the year ended December 31, 2023 compared to \$20.8 million, or \$2.94 per diluted share, for the year ended December 31, 2022. For the year ended December 31, 2023, the return on average assets (ROA) was 0.05%, the return on average stockholders' equity (ROE) was 0.76%, and the efficiency ratio was 78.5%.

**Consolidated net income** decreased \$1.8 million to \$20.8 million, or \$3.06 \$2.94 per diluted share, for the year ended December 31, 2022 compared to \$22.5 million, or \$3.27 \$3.15 per diluted share, for the year ended December 31, 2021. For the year ended December 31, 2022, the return on average assets ("ROA") (ROA) was 1.16%, the return on average stockholders' equity ("ROE") (ROE) was 15.94%, and the efficiency ratio was 66.7%.

**Consolidated net income** increased \$8.2 million to \$22.5 million, or \$3.27 per diluted share, for the year ended December 31, 2021 compared to \$14.3 million, or \$2.04 per diluted share, for the year ended December 31, 2020. For the year ended December 31, 2021, the ROA was 1.30%, the ROE was 16.46%, and the efficiency ratio 65.0%.

**Net interest income** was \$58.8 million \$59.1 million for the year ended December 31, 2022 December 31, 2023 compared to \$58.5 million \$58.8 million and \$53.3 million \$58.5 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. The net interest margin was 3.53% 3.29% for the year ended December 31, 2022 December 31, 2023 compared to 3.62% 3.53% and 3.48% 3.62% for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively.

**Provision expense, for (release of) credit losses** The For the year ended December 31, 2023, the Company recognized a negative provision expense for loan credit losses on loans and unfunded commitments of \$0.9 million for the year ended December 31, 2022 \$2.3 million compared to a negative \$0.9 million and \$1.7 million release of provision expense of \$1.7 million and a provision expense of \$5.8 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. The negative release of provision expense in for 2022 and 2021 primarily resulted was driven in part from the release of specific reserves due to returning significant loan balances to accrual status accruing from non-accrual status. Uncertain economic conditions resulting from the COVID-19 pandemic impacted the recognition of provision expense in 2020, status or other collateral valuation adjustments.

**Non-interest income** decreased \$6.4 million, or 46.1%, for the year ended December 31, 2023 compared to the year ended December 31, 2022, and decreased \$2.8 million, or 16.7%, for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$1.8 million, or 12.1%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. These changes are discussed in greater detail below under the **Non-interest Income and Expense section**. Income.

**Non-interest expense** increased \$3.8 million, or 7.9%, for the year ended December 31, 2023 compared to the year ended December 31, 2022, and decreased \$0.4 million, or 0.9%, for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$3.9 million, or 8.8%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. These changes are discussed in greater detail below under the **Non-interest Income and Expense section**. Expense.

### Balance Sheet Highlights

**Cash and cash equivalents** – Cash and cash equivalents increased \$9.7 million, or 11.6%, to \$93.5 million as of December 31, 2023 compared to \$83.7 million as of December 31, 2022, and decreased \$76.2 million, or 47.6%, to \$83.7 million as of December 31, 2022 compared to \$159.9 million as of December 31, 2021. See the **Liquidity Management section** for further discussion.

**Loans** – Loans held for investment increased \$17.9 million, or 1.2%, to \$1.5 billion as of December 31, 2023 compared to December 31, 2022, and increased \$219.1 million, or 16.8%, to \$1.5 billion as of December 31, 2022 compared to \$1.3 billion as of December 31, 2021, and increased \$15.2 million, or 1.2%, to \$1.3 billion as of December 31, 2021 compared to \$1.3 billion as of December 31, 2020.

**Asset quality** – Non-performing loans decreased \$12.3 million to \$6.4 million, or 0.42% of total loans, at December 31, 2023 compared to \$18.7 million, or 1.23% of total loans, at December 31, 2022, and decreased \$6.8 million to \$18.7 million, or 1.23% of total loans, at December 31, 2022 compared to \$25.5 million, or 1.96% of total loans, at December 31, 2021, and decreased \$9.1 million to \$25.5 million, or 1.96% of total loans, at December 31, 2021 compared to \$34.6 million, or 2.69% of total loans, at December 31, 2020. The reduction in non-performing loans was primarily resulted from due to non-accrual loan relationships returning to accrual status in both 2022 2023 and 2021, 2022.

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which provides for the CECL credit loss model. The adoption of the standard resulted in an increase to the allowance for credit losses of \$5.8 million and a liability for unfunded commitments totaling \$1.3 million. These one-time cumulative adjustments resulted in a \$5.6 million tax-effected decrease to retained earnings.

The allowance for loan credit losses to total loans was **1.02%** **1.54%** at December 31, 2022 December 31, 2023, compared to the allowance for loan losses of **1.02%** at December 31, 2022 and **1.30%** at December 31, 2021 and **1.41%** at December 31, 2020. The Company's net charge-offs for the year ended December 31, 2022 December 31, 2023, were \$0.3 million, or 0.02% of average loans compared to \$0.4 million, or 0.03% of average loans compared to for the year ended December 31, 2022, and net recoveries of \$0.5 million, or 0.04% of average loans for the year ended December 31, 2021, and net charge-offs of \$0.2 million, or 0.01% of average loans for the year ended December 31, 2020. See the *Lending and Credit Management* section below for further discussion.

**Deposits** – Total deposits decreased \$61.2 million, or 3.8%, equal to \$1.6 billion as of December 31, 2023 compared to December 31, 2022, and increased \$115.3 million, or 7.6%, equal to \$1.6 billion as of December 31, 2022 compared to \$1.5 billion as of December 31, 2021.

**Federal Home Loan Bank ("FHLB") advances and other borrowings** – Total FHLB advances and other borrowings increased \$9.0 million, or 9.2%, to \$107.0 million as of December 31, 2023 compared to \$98.0 million as of December 31, 2022, and increased **\$133.2 million** \$20.6 million, or **9.6%** **26.6%**, to **\$1.5 billion** \$98.0 million as of December 31, 2022 compared to \$77.4 million as of December 31, 2021 compared to \$1.4 billion as of December 31, 2020.

**Capital** – On January 1, 2023, the Company adopted Accounting Standard Update (ASU) 2016-13 and recorded a one-time cumulative effect adjustment to retained earnings totaling \$5.6 million after-tax. Total shareholder's equity was **\$127.4 million** \$136.1 million and the common equity to assets ratio was **6.62%** **7.26%** at December 31, 2022 December 31, 2023 as compared to **6.62%** and **8.13%** at December 31, 2022 and **7.53%** at December 31, 2021 and December 31, 2020, respectively. Regulatory capital ratios remain "well-capitalized," with a tier 1 leverage ratio of **10.76%** **10.29%** and a total risk-based capital ratio of **13.85%** **13.99%** at December 31, 2022 December 31, 2023.

#### Average Balance Sheets

**Net interest income** is the largest source of revenue resulting from the Company's lending, investing, borrowing, and deposit gathering activities. It is affected by both 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 sheets, net interest income, average yields of earning assets, average costs of interest-bearing liabilities, net interest spread and net interest margin on a fully taxable equivalent basis for each of the years in the three-year periods ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021, respectively. The average balances used in this table and other statistical data were calculated using average daily balances.

(In thousands)	2022			2021			2020							
	Average Balance	Interest		Rate Earned/ Paid (1)	Average Balance	Interest		Rate Earned/ Paid (1)	Average Balance					
		Income/ Expense (1)	Average			Income/ Expense (1)	Average							
<b>ASSETS</b>														
<b>Loans: (2) (3)</b>														
Commercial	\$ 236,228	\$ 12,320	5.22 %	\$ 245,779	\$ 15,527	6.32 %	\$ 264,160	\$ 13,012	4.93 %					
Real estate construction -														
residential	24,766	1,296	5.23	34,357	1,662	4.84	26,184	1,360	5.19					
Real estate construction -														
commercial	115,424	5,307	4.60	78,068	3,577	4.58	85,132	4,004	4.70					
Real estate mortgage - residential	313,926	13,736	4.38	267,722	11,461	4.28	252,898	11,933	4.72					
Real estate mortgage -														
commercial	692,712	29,881	4.31	631,612	26,665	4.22	586,188	27,103	4.62					
Installment and other consumer	23,237	847	3.65	24,681	979	3.97	29,409	1,232	4.19					
<b>Total loans</b>	<b>\$ 1,406,293</b>	<b>\$ 63,387</b>	<b>4.51 %</b>	<b>\$ 1,282,219</b>	<b>\$ 59,871</b>	<b>4.67 %</b>	<b>\$ 1,243,971</b>	<b>\$ 58,644</b>	<b>4.71 %</b>					
<b>Loans held for sale</b>	<b>\$ 1,738</b>	<b>\$ 90</b>	<b>5.18 %</b>	<b>\$ 3,947</b>	<b>\$ 102</b>	<b>2.58 %</b>	<b>\$ 7,876</b>	<b>\$ 120</b>	<b>1.52 %</b>					
<b>Investment securities:</b>														
U.S. Treasury	\$ 3,538	\$ 40	1.13 %	\$ 3,088	\$ 18	0.58 %	\$ 1,792	\$ 24	1.34 %					
U.S. government and federal														
agency obligations	25,709	362	1.41	22,562	364	1.61	39,572	779	1.97					
Obligations of states and political														
subdivisions	115,132	4,112	3.57	97,632	2,953	3.02	44,410	1,285	2.89					
Mortgage-backed securities	116,061	1,996	1.72	127,225	1,719	1.35	97,905	1,687	1.72					
Other debt securities	12,889	644	5.00	11,985	578	4.82	8,294	426	5.14					
<b>Total investment securities</b>	<b>\$ 273,329</b>	<b>\$ 7,154</b>	<b>2.62 %</b>	<b>\$ 262,492</b>	<b>\$ 5,632</b>	<b>2.15 %</b>	<b>\$ 191,973</b>	<b>\$ 4,201</b>	<b>2.19 %</b>					
Other investment securities	5,627	269	4.78	5,911	301	5.09	6,646	343	5.16					

Federal funds sold	1,724	6	0.35	10,150	8	0.08	12,267	161	1.31
Interest-bearing deposits in other financial institutions	31,955	414	1.30	103,719	337	0.32	97,851	507	0.52
<b>Total interest-earning assets</b>	<b>\$ 1,720,666</b>	<b>\$ 71,320</b>	<b>4.14 %</b>	<b>\$ 1,668,438</b>	<b>\$ 66,251</b>	<b>3.97 %</b>	<b>\$ 1,560,584</b>	<b>\$ 63,976</b>	<b>4.10 %</b>
All other assets	86,918			85,014			83,923		
Allowance for loan losses	(15,581)			(18,751)			(15,771)		
<b>Total assets</b>	<b>\$ 1,792,003</b>			<b>\$ 1,734,701</b>			<b>\$ 1,628,736</b>		

**Average Balance Sheets (continued)**

	2022			2021			2020		
(in thousands)	Average Balance	Interest Income/Expense(1)	Rate Earned/Paid(1)	Average Balance	Interest Income/Expense(1)	Rate Earned/Paid(1)	Average Balance	Interest Income/Expense(1)	Rate Earned/Paid(1)
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
Savings	\$ 180,122	\$ 61	0.03 %	\$ 157,549	\$ 54	0.03 %	\$ 117,598	\$ 55	0.05 %
Now accounts	252,842	1,627	0.64	231,742	536	0.23	196,895	659	0.33
Interest checking	64,473	1,786	2.77	42,067	188	0.45	53,090	400	0.75
Money market	297,153	1,535	0.52	281,254	335	0.12	279,071	744	0.27
Time deposits	261,834	2,140	0.82	255,289	2,021	0.79	301,677	3,994	1.32
<b>Total interest-bearing deposits</b>	<b>\$ 1,056,424</b>	<b>\$ 7,149</b>	<b>0.68 %</b>	<b>\$ 967,901</b>	<b>\$ 3,134</b>	<b>0.32 %</b>	<b>\$ 948,331</b>	<b>\$ 5,852</b>	<b>0.62 %</b>
Federal funds purchased and securities sold under agreements									
to repurchase	\$ 7,982	\$ 51	0.64 %	\$ 34,449	\$ 87	0.25 %	\$ 34,026	\$ 146	0.43 %
Federal Home Loan Bank advances and other borrowings	80,867	1,268	1.57	92,259	1,461	1.58	117,214	2,199	1.88
Subordinated notes	49,486	2,072	4.19	49,486	1,227	2.48	49,486	1,527	3.09
<b>Total borrowings</b>	<b>\$ 138,335</b>	<b>\$ 3,391</b>	<b>2.45 %</b>	<b>\$ 176,194</b>	<b>\$ 2,775</b>	<b>1.57 %</b>	<b>\$ 200,726</b>	<b>\$ 3,872</b>	<b>1.93 %</b>
<b>Total interest-bearing liabilities</b>	<b>\$ 1,194,759</b>	<b>\$ 10,540</b>	<b>0.88 %</b>	<b>\$ 1,144,095</b>	<b>\$ 5,909</b>	<b>0.52 %</b>	<b>\$ 1,149,057</b>	<b>\$ 9,724</b>	<b>0.85 %</b>
Demand deposits	454,931			436,434			339,385		
Other liabilities	12,102			17,347			18,522		
<b>Total liabilities</b>	<b>1,661,792</b>			<b>1,597,876</b>			<b>1,506,964</b>		
Stockholders' equity	130,211			136,825			121,772		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,792,003</b>			<b>\$ 1,734,701</b>			<b>\$ 1,628,736</b>		
<b>Net interest income (FTE)</b>		<b>\$ 60,780</b>			<b>\$ 60,342</b>			<b>\$ 54,252</b>	
<b>Net interest spread</b>			<b>3.26 %</b>			<b>3.45 %</b>			<b>3.25 %</b>
<b>Net interest margin</b>			<b>3.53 %</b>			<b>3.62 %</b>			<b>3.48 %</b>

	2023			2022			2021		
(in thousands)	Average Balance	Interest Income/Expense(1)	Rate Earned/Paid(1)	Average Balance	Interest Income/Expense(1)	Rate Earned/Paid(1)	Average Balance	Interest Income/Expense(1)	Rate Earned/Paid(1)
<b>Assets</b>									
<b>Loans: (2)</b>									
Commercial	\$ 230,988	\$ 14,401	6.23 %	\$ 236,228	\$ 12,320	5.22 %	\$ 245,779	\$ 15,527	6.32 %
Real estate construction - residential	50,497	3,707	7.34	24,766	1,296	5.23	34,357	1,662	4.84
Real estate construction - commercial	136,455	7,511	5.50	115,424	5,307	4.60	78,068	3,577	4.58
Real estate mortgage - residential	370,024	19,862	5.37	313,926	13,736	4.38	267,722	11,461	4.28

Real estate mortgage - commercial	734,657	37,957	5.17	692,712	29,881	4.31	631,612	26,665	4.22
Installment and other consumer	22,307	1,056	4.73	23,237	847	3.65	24,681	979	3.97
<b>Total loans</b>	<b>\$ 1,544,928</b>	<b>\$ 84,494</b>	<b>5.47 %</b>	<b>\$ 1,406,293</b>	<b>\$ 63,387</b>	<b>4.51 %</b>	<b>\$ 1,282,219</b>	<b>\$ 59,871</b>	<b>4.67 %</b>
<b>Loans held for sale</b>	<b>\$ 3,609</b>	<b>\$ 160</b>	<b>4.43 %</b>	<b>\$ 1,738</b>	<b>\$ 90</b>	<b>5.18 %</b>	<b>\$ 3,947</b>	<b>\$ 102</b>	<b>2.58 %</b>
<b>Investment securities:</b>									
U.S. Treasury	\$ 4,200	\$ 176	4.19 %	\$ 3,538	\$ 40	1.13 %	\$ 3,088	\$ 18	0.58 %
U.S. government and federal agency obligations	24,832	436	1.76	25,709	362	1.41	22,562	364	1.61
Obligations of states and political subdivisions	107,482	3,374	3.14	115,132	4,112	3.57	97,632	2,953	3.02
Mortgage-backed securities	96,649	2,038	2.11	116,061	1,996	1.72	127,225	1,719	1.35
Other debt securities	11,787	696	5.90	12,889	644	5.00	11,985	578	4.82
<b>Total investment securities</b>	<b>\$ 244,950</b>	<b>\$ 6,720</b>	<b>2.74 %</b>	<b>\$ 273,329</b>	<b>\$ 7,154</b>	<b>2.62 %</b>	<b>\$ 262,492</b>	<b>\$ 5,632</b>	<b>2.15 %</b>
Other investment securities	6,973	441	6.32	5,627	270	4.80	5,911	301	5.09
Federal funds sold	44	2	4.55	1,724	6	0.35	10,150	8	0.08
Interest bearing deposits in other financial institutions	25,437	1,239	4.87	31,955	413	1.29	103,719	337	0.32
<b>Total interest earning assets</b>	<b>\$ 1,825,941</b>	<b>\$ 93,056</b>	<b>5.10 %</b>	<b>\$ 1,720,666</b>	<b>\$ 71,320</b>	<b>4.14 %</b>	<b>\$ 1,668,438</b>	<b>\$ 66,251</b>	<b>3.97 %</b>
All other assets	89,071			86,985			85,014		
Allowance for credit losses	(20,737)			(15,581)			(18,751)		
<b>Total assets</b>	<b>\$ 1,894,275</b>			<b>\$ 1,792,070</b>			<b>\$ 1,734,701</b>		

#### Average Balance Sheets (continued)

<i>(in thousands)</i>	2023			2022			2021		
	Average Balance	Interest Income/	Rate Earned/	Average Balance	Interest Income/	Rate Earned/	Average Balance	Interest Income/	Rate
		Expense(1)	Paid(1)		Expense(1)	Paid(1)		Expense(1)	Earned/
<b>Liabilities and Stockholders' Equity</b>									
Savings	\$ 182,870	\$ 1,026	0.56 %	\$ 180,122	\$ 61	0.03 %	\$ 157,549	\$ 54	0.03 %
NOW accounts	199,234	2,280	1.14	252,842	1,627	0.64	231,742	536	0.23
Interest checking	167,157	7,648	4.58	64,473	1,786	2.77	42,067	188	0.45
Money market	282,924	5,842	2.06	297,153	1,535	0.52	281,254	335	0.12
Time deposits	329,091	8,988	2.73	261,833	2,140	0.82	255,289	2,021	0.79
<b>Total interest bearing deposits</b>	<b>\$ 1,161,276</b>	<b>\$ 25,784</b>	<b>2.22 %</b>	<b>\$ 1,056,423</b>	<b>\$ 7,149</b>	<b>0.68 %</b>	<b>\$ 967,901</b>	<b>\$ 3,134</b>	<b>0.32 %</b>
Federal funds purchased and securities sold under agreements to repurchase	5,253	115	2.19	7,982	51	0.64	34,449	87	0.25
Federal Home Loan Bank advances and other borrowings	112,271	3,255	2.90	80,867	1,268	1.57	92,259	1,461	1.58
Subordinated notes	49,486	3,774	7.63	49,486	2,072	4.19	49,486	1,227	2.48
<b>Total borrowings</b>	<b>\$ 167,010</b>	<b>\$ 7,144</b>	<b>4.28 %</b>	<b>\$ 138,335</b>	<b>\$ 3,391</b>	<b>2.45 %</b>	<b>\$ 176,194</b>	<b>\$ 2,775</b>	<b>1.57 %</b>
<b>Total interest bearing liabilities</b>	<b>\$ 1,328,286</b>	<b>\$ 32,928</b>	<b>2.48 %</b>	<b>\$ 1,194,758</b>	<b>\$ 10,540</b>	<b>0.88 %</b>	<b>\$ 1,144,095</b>	<b>\$ 5,909</b>	<b>0.52 %</b>
Demand deposits	426,739			454,931			436,434		
Other liabilities	12,719			12,170			17,347		

<b>Total liabilities</b>	1,767,744	1,661,859	1,597,876
Stockholders' equity	126,531	130,211	136,825
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,894,275</b>	<b>\$ 1,792,070</b>	<b>\$ 1,734,701</b>
<b>Net interest income (FTE)</b>	<b>\$ 60,128</b>	<b>\$ 60,780</b>	<b>\$ 60,342</b>
<b>Net interest spread (FTE)</b>	2.62 %	3.26 %	3.45 %
<b>Net interest margin (FTE)</b>	3.29 %	3.53 %	3.62 %

(1) Interest income and yields are presented on a fully taxable equivalent basis using the federal statutory income tax rate of 21%, net of nondeductible interest expense for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively. Such adjustments totaled \$2.1 million \$1.1 million, \$1.8 million \$2.1 million and \$1.0 million \$1.8 million for the years ended December 31, 2022 December 31, 2023, 2021 2022, and 2020, 2021, respectively.

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

(3) Fees and costs on loans are included in interest income (\$0.4 million, \$5.4 million, and \$1.8 million of PPP fees for the years ended December 31, 2022, 2021 and 2020, respectively, were included in commercial loan income).

#### Rate and Volume Analysis

The following table summarizes the changes in net interest income on a fully taxable equivalent basis, by major category of interest-earning assets and interest-bearing liabilities, identifying changes related to volumes and rates for the years ended December 31, 2022 December 31, 2023 compared to December 31, 2021 December 31, 2022, and for the years ended December 31, 2021 December 31, 2022 compared to December 31, 2020 December 31, 2021. 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.

	2022				2021				2023				2022			
	2023								2023				2022			
	(In thousands)		Change due to		Change due to		(In thousands)		Change due to		Change due to		(In thousands)		Change due to	
	(In thousands)	(In thousands)	Total Change	Average Volume	Average Rate	Total Change	Average Volume	Average Rate	(In thousands)	Total Change	Average Volume	Average Rate	(In thousands)	Total Change	Average Volume	Average Rate
Interest income on a fully taxable equivalent basis: (1)	Interest income on a fully taxable equivalent basis: (1)															
Loans: (2) (3)	Loans: (2)															
Loans: (2)	Loans: (2)															
Commercial	Commercial															
Commercial	Commercial	\$ (3,207)	\$ (584)	\$ (2,623)	\$ 2,515	\$ (956)	\$ 3,471									
Real estate construction - residential	Real estate construction - residential	(366)	(493)	127	302	401	(99)									
Real estate construction - commercial	Real estate construction - commercial	1,730	1,718	12	(428)	(326)	(102)									
Real estate mortgage - residential	Real estate mortgage - residential	2,275	2,018	257	(472)	674	(1,146)									
Real estate mortgage - commercial	Real estate mortgage - commercial	3,216	2,623	593	(437)	2,014	(2,451)									
Installment and other consumer	Installment and other consumer	(132)	(55)	(77)	(253)	(190)	(63)									
Loans held for sale	Loans held for sale	(12)	(78)	66	(18)	(77)	59									
Investment securities:	Investment securities:															

U.S. Treasury	U.S. Treasury	22	3	19	(6)	12	(18)
U.S. Treasury							
U.S. Treasury							
U.S. government and federal agency obligations	U.S. government and federal agency obligations	(2)	47	(49)	(415)	(292)	(123)
Obligations of states and political subdivisions	Obligations of states and political subdivisions	1,159	576	583	1,668	1,607	61
Mortgage-backed securities	Mortgage-backed securities	277	(161)	438	32	442	(410)
Other debt securities	Other debt securities	66	45	21	152	179	(27)
Other investment securities	Other investment securities	(32)	(14)	(18)	(42)	(37)	(5)
Federal funds sold	Federal funds sold	(2)	(11)	9	(153)	(24)	(129)
Interest-bearing deposits in other financial institutions		77	(359)	436	(170)	29	(199)
Interest bearing deposits in other financial institutions							
Total interest income	Total interest income	5,069	5,275	(206)	2,275	3,456	(1,181)
Interest expense:	Interest expense:						
Savings							
Savings	Savings	7	7	—	(1)	16	(17)
NOW accounts	NOW accounts	1,091	53	1,038	(123)	103	(226)
Interest checking	Interest checking	1,598	150	1,448	(212)	(72)	(140)
Money market	Money market	1,200	20	1,180	(409)	6	(415)
Time deposits	Time deposits	119	52	67	(1,973)	(546)	(1,427)
Federal funds purchased and securities sold under agreements to repurchase	Federal funds purchased and securities sold under agreements to repurchase	(36)	(100)	64	(59)	2	(61)

Federal	Federal					
Home Loan	Home Loan					
Bank	Bank					
advances	advances					
and other	and other					
borrowings	borrowings	(193)	(179)	(14)	(738)	(426)
Subordinated	Subordinated					
notes	notes	845	—	845	(300)	—
<b>Total</b>	<b>Total</b>					
<b>interest</b>	<b>interest</b>					
<b>expense</b>	<b>expense</b>	4,631	3	4,628	(3,815)	(917)
<b>Net interest</b>	<b>Net interest</b>					
income on a	income on a					
fully taxable	fully taxable					
equivalent	equivalent					
basis	basis	\$ 438	\$ 5,272	\$ (4,834)	\$ 6,090	\$ 4,373
						\$ 1,717

(1) Interest income and yields are presented on a fully taxable equivalent basis using the federal statutory income tax rate of 21%, net of nondeductible interest expense for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively. Such adjustments totaled \$2.1 million \$1.1 million, \$1.8 million \$2.1 million and \$1.0 million \$1.8 million for the years ended December 31, 2022 December 31, 2023, 2021 2022, and 2020, 2021, respectively.

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

(3) Fees and costs on loans are included Financial results for the year ended December 31, 2023 compared to the year ended December 31, 2022 reflected a decrease in net interest income, (\$0.4 million, \$5.4 million on a fully taxable equivalent basis, of \$0.7 million, or 1.1%, and \$1.8 million of PPP fees for the years ended December 31, 2022, 2021 and 2020, respectively, were included in commercial loan income).

Financial financial results for the year ended December 31, 2022 compared to the year ended December 31, 2021 reflected an increase in net interest income, on a tax equivalent basis, of \$0.4 million, or 0.7%, and financial results for the year ended December 31, 2021 compared to the year ended December 31, 2020 reflected an increase of \$6.1 million, or 11.2%.

Measured as a percentage of average earning assets, the net interest margin (expressed on a fully taxable equivalent basis) was 3.53% 3.29% for the year ended December 31, 2022 December 31, 2023, compared to 3.62% 3.53% and 3.48% 3.62% for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively.

The decrease in net interest income and net interest margin for 2023 compared to 2022, resulted from higher interest expense on both deposits and borrowings. While interest income on a fully taxable equivalent basis increased \$21.7 million for 2023 compared to 2022, interest expense increased \$22.4 million for 2023 compared to 2022.

The increase in net interest income and decrease in net interest margin for 2022 compared to 2021 primarily resulted from higher interest income from loan growth in average loans of 9.7%, and a 4.1% increase in the investment portfolio, offset by higher interest expense for interest bearing liabilities and a reduction of fee income from loans under the SBA's Paycheck Protection Program ("PPP"). The increase in net interest income and net interest margin Program.

Average interest-earning assets increased \$105.3 million, or 6.1%, to \$1.83 billion for 2021 over 2020 was primarily due to an increase in PPP income and a decrease in rates paid on average interest-bearing liabilities. The Company earned \$0.4 million in 2022 the year ended December 31, 2023 compared to \$5.4 million \$1.72 billion for the year ended December 31, 2022, and \$1.8 million in 2021 and 2020, respectively, in PPP fees. average interest bearing liabilities increased \$133.5 million, or 11.2%, to \$1.33 billion for the year ended December 31, 2023 compared to \$1.19 billion for the year ended December 31, 2022.

Average interest-earning assets increased \$52.2 million, or 3.1%, to \$1.72 billion for the year ended December 31, 2022 compared to \$1.67 billion for the year ended December 31, 2021, and average interest-bearing interest bearing liabilities increased \$50.7 million, or 4.4%, to \$1.19 billion for the year ended December 31, 2022 compared to \$1.14 billion for the year ended December 31, 2021.

Average interest-earning assets increased \$107.9 million, or 6.9%, to \$1.67 billion for the year ended December 31, 2021 compared to \$1.56 billion for the year ended December 31, 2020, and average interest-bearing liabilities decreased \$5.0 million, or 0.4%, to \$1.14 billion for the year ended December 31, 2021 compared to \$1.15 billion for the year ended December 31, 2020.

**Total interest income** (expressed on a fully taxable equivalent basis) increased to \$71.3 million \$93.1 million for the year ended December 31, 2022 December 31, 2023 compared to \$66.3 million \$71.3 million and \$64.0 million \$66.3 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. The Company's rates earned on interest-earning interest earning assets were 4.14% 5.10% for the year ended December 31, 2022 December 31, 2023 compared to 3.97% 4.14% and 4.10% 3.97% for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively.

**Interest income on loans held for investment** increased to \$63.4 million \$84.5 million for the year ended December 31, 2022 December 31, 2023 compared to \$59.9 million \$63.4 million and \$58.6 million \$59.9 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively.

Average loans outstanding increased \$138.6 million, or 9.9%, to \$1.54 billion for the year ended December 31, 2023 compared to \$1.41 billion for the year ended December 31, 2022. The average yield on loans receivable increased to 5.47% during the year ended December 31, 2023 compared to 4.51% for the year ended December 31, 2022. The increase in yield as of December 31, 2023 compared to the prior year is reflective of recent market conditions where most loan types have seen an increase in yield, consistent with recent increases in the prime rate. Contributing to the increase in yield was interest accrued into income on three loans returning to accruing status in 2023.

Average loans outstanding increased \$124.1 million, or 9.7%, to \$1.41 billion for the year ended December 31, 2022 compared to \$1.28 billion for the year ended December 31, 2021. The average yield on loans receivable decreased to 4.51% during the year ended December 31, 2022 compared to 4.67% for the year ended December 31, 2021.

Average loans outstanding increased \$38.2 million, or 3.1%, to \$1.28 billion for the year ended December 31, 2021 compared to \$1.24 billion for the year ended December 31, 2020. The average yield on loans receivable decreased to 4.67% during the year ended December 31, 2021 compared to 4.71% for the year ended December 31, 2020. 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** decreased to \$6.7 million for the year ended December 31, 2023 compared to \$7.2 million for the year ended December 31, 2022 and increased to \$7.2 million for the year ended December 31, 2022 compared to \$5.6 million and \$4.2 million for the years year ended December 31, 2021.

Average securities decreased \$28.4 million, or 10.4%, to \$245.0 million for the year ended December 31, 2023 compared to \$273.3 million for the year ended December 31, 2022. The average yield on securities increased to 2.74% for the year ended December 31, 2023 compared to 2.62% for the year ended December 31, 2022. The Company proactively elected a strategy to begin repositioning its balance sheet during the fourth quarter of 2023 by selling \$83.7 million in book value of investment securities, with an average yield of 1.57%, which is expected to be accretive to earnings, net interest margin and 2020, respectively, return on assets in future periods.

Average securities increased \$10.8 million, or 4.1%, to \$273.3 million for the year ended December 31, 2022 compared to \$262.5 million for the year ended December 31, 2021. The average yield on securities increased to 2.62% for the year ended December 31, 2022 compared to 2.15% for the year ended December 31, 2021.

Average securities increased \$70.5 million, or 36.7%, to \$262.5 million for the year ended December 31, 2021 compared to \$192.0 million for the year ended December 31, 2020. The average yield on securities decreased to 2.15% for the year ended December 31, 2021 compared to 2.19% for the year ended December 31, 2020. See the *Liquidity Management* section for further discussion.

**Total interest expense** was \$10.5 million \$32.9 million for the year ended December 31, 2022 December 31, 2023 compared to \$5.9 million \$10.5 million and \$9.7 million \$5.9 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. The Company's rate paid on interest-bearing interest bearing

liabilities was 0.88% 2.48% for the year ended December 31, 2022 December 31, 2023 compared to 0.52% 0.88% and 0.85% 0.52% for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. See the *Liquidity Management* section for further discussion.

**Interest expense on deposits** was \$7.1 million \$25.8 million for the year ended December 31, 2022 December 31, 2023 compared to \$3.1 million \$7.1 million and \$5.9 million \$3.1 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively.

Average interest-bearing interest deposits increased \$104.9 million, or 9.9%, to \$1.16 billion for the year ended December 31, 2023 compared to \$1.06 billion for the year ended December 31, 2022. The average cost of deposits increased to 2.22% during the year ended December 31, 2023 compared to 0.68% for the year ended December 31, 2022.

Average interest-bearing deposits increased \$88.5 million, or 9.1%, to \$1.06 billion for the year ended December 31, 2022 compared to \$967.9 million \$0.97 billion for the year ended December 31, 2021. The average cost of deposits increased to 0.68% during the year ended December 31, 2022 compared to 0.32% for the year ended December 31, 2021.

Average interest-bearing deposits increased \$19.6 million, or 2.1%, to \$967.9 million for the year ended December 31, 2021 compared to \$948.3 million for the year ended December 31, 2020. The average cost of deposits decreased to 0.32% during the year ended December 31, 2021 compared to 0.62% for the year ended December 31, 2020.

**Interest expense on borrowings** was \$3.4 million \$7.1 million for the year ended December 31, 2022 December 31, 2023 compared to \$2.8 million \$3.4 million and \$3.9 million \$2.8 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively.

Average borrowings were \$138.3 million \$167.0 million for the year ended December 31, 2022 December 31, 2023 compared to \$176.2 million \$138.3 million and \$200.7 million \$176.2 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. The Company utilizes funding capacity with the FHLB to meet its short-term liquidity needs. The average cost of borrowings increased to 2.45% 4.28% for the year ended December 31, 2022 December 31, 2023 compared to 1.57% 2.45% and 1.93% 1.57% for the years ended December 31, 2021 December 31, 2022, and 2020, 2021, respectively. The increase in cost of funds is consistent with increases in prime resulting from higher market interest rates.

The decrease in average borrowings from 2021 compared to 2022 and 2021 compared to 2020 was primarily due to a decrease in advances from the Federal Home Loan Bank of Des Moines ("FHLB"). The Company will continue to use FHLB advances as a source of funding when conditions warrant. See the *Liquidity Management* section for further discussion.

#### Non-interest Income and Expense

Non-interest income for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021 was as follows:

			\$ Change		% Change					\$		Char		
	(In thousands)	(In thousands)	2022	2021	2020	'22-'21	'21-'20	'22-'21	'21-'20	2022	2021	2023 vs 2022	2022 vs 2021	
Non-interest income														

Service charges and other fees	Service charges and other fees	\$ 3,002	\$ 3,094	\$ 2,955	\$ (92)	\$ 139	(3.0)%	4.7 %	Service charges and other fees	\$ 2,942	\$ 3,002	\$ 3,094	\$ (60)	\$ (92)	(2.0)%	(2.0)%	(3.0)%
Bank card income and fees	Bank card income and fees	4,083	3,957	3,201	126	756	3.2	23.6									
Trust department income	Trust department income	1,184	1,324	1,185	(140)	139	(10.6)	11.7									
Real estate servicing fees, net	Real estate servicing fees, net	1,004	580	(49)	424	629	73.1	(1,283.7)									
Gain on sales of mortgage loans, net	Gain on sales of mortgage loans, net	2,661	7,165	7,109	(4,504)	56	(62.9)	0.8									
(Losses) gains on other real estate owned, net	(Losses) gains on other real estate owned, net																
Other	Other	2,044	666	572	1,378	94	206.9	16.4									
<b>Total non-interest income</b>	<b>Total non-interest income</b>	<b>\$ 13,978</b>	<b>\$ 16,786</b>	<b>\$ 14,973</b>	<b>\$ (2,808)</b>	<b>\$ 1,813</b>	<b>(16.7)%</b>	<b>12.1 %</b>	<b>Total non-interest income</b>	<b>\$ 7,536</b>	<b>\$ 13,978</b>	<b>\$ 16,786</b>	<b>\$ (6,442)</b>	<b>\$ (2,808)</b>	<b>(46.1)%</b>	<b>(46.1)%</b>	<b>(16.7)%</b>
Non-interest income as a % of total revenue *	Non-interest income as a % of total revenue *	19.2 %	22.3 %	21.9 %													

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

NM = not meaningful

**Total non-interest income** decreased \$6.4 million, or 46.1%, to \$7.5 million for the year ended December 31, 2023 compared to the year ended December 31, 2022, and decreased \$2.8 million, or (16.7)% 16.7%, to \$14.0 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$1.8 million, or 12.1%, to \$16.8 million for the year ended December 31, 2021 compared to the year ended December 31, 2020.

**Bank card income and fees** increased \$0.1 million, or 3.2%, to \$4.1 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$0.8 million, or 23.6%, to \$4.0 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increases were primarily related to increases in debit card usage and interchange fees. As the economy began to recover from the COVID 19 pandemic, the Company began to see an increase in spending due to both stimulus income and a reduction of conservative savings due to the uncertainty of the pandemic.

**Real estate servicing fees, net** of the change in valuation of mortgage servicing rights ("MSRs") was \$1.0 million \$(0.6) million for the year ended December 31, 2022 December 31, 2023 compared to \$0.6 million \$1.0 million and \$(0.05) million \$0.6 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. In the fourth quarter of 2023, the Company recognized a \$1.1 million mortgage servicing rights valuation write-down upon accepting a letter of intent to sell the Company's servicing portfolio during the first quarter of 2024. During 2022, mortgage rates significantly increased to over 6.0% for a new thirty-year conforming mortgage, and the discount rates used in the MSRs valuation of mortgage servicing rights increased as yields and risk increased contributing to increase in the valuation of mortgage servicing rights MSRs in 2022 compared to 2021. When comparing the change from 2021 to 2020, the dramatic drop in market interest rates in 2020 created an economic incentive for borrowers to refinance their existing home mortgage loans that slowed in 2021.

Mortgage loan servicing fees earned on loans sold were \$0.8 million \$0.6 million for the year ended December 31, 2022 December 31, 2023 compared to \$0.8 million and \$0.9 million \$0.8 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. The Company was servicing

\$240.5 220.7 million of mortgage loans at December 31, 2022, December 31, 2023 compared to \$240.5 million and \$270.0 million at December 31, 2022 and \$292.7 million at December 31, 2021 and 2020, 2021, respectively.

**Gain on sales of mortgage loans** decreased \$4.5 million to \$2.7 million was \$2.6 million for the year ended December 31, 2022 December 31, 2023 compared to \$2.7 million and \$7.2 million for the years ended December 31, 2021, December 31, 2022 and increased \$0.1 million to \$7.2 million for the year ended December 31, 2021 compared to \$7.1 million for the year ended December 31, 2020, 2021, respectively. The Company sold loans totaling \$87.2 million \$106.2 million for the year ended December 31, 2022 December

31, 2023 compared to \$206.6 million \$87.2 million and \$195.9 million \$206.6 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. The Company experienced strong sales in the secondary market in 2020 that slowed during the fourth quarter of 2021 as market rates continued to rise throughout 2022.

**Other income (Losses) Gains on other real estate owned, net** increased \$1.4 million to \$2.0 million was \$(4.4) million, for the year ended December 31, 2022 December 31, 2023 compared to the year ended December 31, 2021, \$0.3 million and increased \$0.1 million to \$0.7 million \$(0.9) million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase in the years ended December 31, 2022 over and 2021, respectively. During 2023 the year ended December 31, 2021 Company recorded a \$4.7 million valuation write-down primarily resulted from an increase in the interest component of net pension cost and a decrease in the valuation allowance for other real estate owned, partially offset by a decrease in mortgage loan derivative income, related to two foreclosed property relationships.

#### Investment Securities (Losses) Gains, (Losses), Net

The following table presents the gross unrealized realized gains and losses from sales and calls of available-for-sale securities, as well as gains and losses on equity securities from fair value adjustments which have been recognized in earnings for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021:

(in thousands)	(in thousands)	2022	2021	2020	(in thousands)	2023	2022	2021
<b>Available-for-sale securities:</b>	<b>Available-for-sale securities:</b>							
Gains realized on sales	\$ —	\$122	\$49					
Losses realized on sales	—	—	(8)					
Gross realized gains								
Gross realized gains						\$ —	\$ —	\$ 122
Gross realized losses								
Gross realized losses						(11,562)	—	—
Other-than-temporary impairment recognized	Other-than-temporary impairment recognized	—	—	—	Other-than-temporary impairment recognized	—	—	—
<b>Other investment securities:</b>	<b>Other investment securities:</b>							
Fair value adjustments, net	Fair value adjustments, net	(14)	27	20				
<b>Investment securities gains (losses), net</b>	<b>Investment securities gains (losses), net</b>	<b>\$(14)</b>	<b>\$149</b>	<b>\$61</b>				
Fair value adjustments, net								
Fair value adjustments, net						32	(14)	27
<b>Certificates of deposit:</b>								
Gross realized gains								
Gross realized gains								
Gross realized gains								
Gross realized losses								
Gross realized losses						(17)	—	—
<b>Investment securities (losses) gains, net</b>	<b>Investment securities (losses) gains, net</b>					\$ (11,547)	\$ (14)	\$ 149

The Company proactively elected a strategy to begin repositioning its balance sheet during the fourth quarter of 2023 by selling \$83.7 million in book value of investment securities, with an average yield of 1.57%, for an after-tax realized loss of \$9.1 million.

Non-interest expense for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021 was as follows:

\$ Change      % Change

(In thousands)	(In thousands)	\$ Change								(In thousands)	2023	2022	2021	2023 vs 2022	2022 vs 2021	2023 vs 2021	2022 vs 2021	\$	%									
																			Change	Change								
		2022	2021	2020	'22-'21	'21-'20	'22-'21	'21-'20																				
<b>Non-interest expense</b>																												
Salaries	Salaries	\$ 20,613	\$ 20,717	\$ 19,765	\$ (104)	\$ 952	(0.5)%	4.8 %	Salaries	\$ 23,273	\$ 20,612	\$ 20,717	\$ 2,661	\$ \$ (105)	12.9	12.9 %	(0.5)%											
Employee benefits	Employee benefits	6,445	6,940	6,386	(495)	554	(7.1)	8.7																				
Occupancy expense, net	Occupancy expense, net	3,175	3,075	3,069	100	6	3.3	0.2																				
Furniture and equipment expense	Furniture and equipment expense	3,054	3,067	3,043	(13)	24	(0.4)	0.8																				
Processing, network and bank card expense	Processing, network and bank card expense	4,788	4,751	3,864	37	887	0.8	23.0																				
Legal, examination, and professional fees	Legal, examination, and professional fees	1,630	3,024	1,458	(1,394)	1,566	(46.1)	107.4																				
Advertising and promotion	Advertising and promotion	1,494	1,227	1,095	267	132	21.8	12.1																				
Postage, printing, and supplies	Postage, printing, and supplies	878	838	897	40	(59)	4.8	(6.6)																				
Loan expense	Loan expense	576	823	1,137	(247)	(314)	(30.0)	(27.6)																				
Other	Other	5,885	4,504	4,307	1,381	197	30.7	4.6																				
<b>Total non-interest expense</b>	<b>Total non-interest expense</b>	\$ 48,538	\$ 48,966	\$ 45,021	\$ (428)	\$ 3,945	(0.9)%	8.8 %	<b>Total non-interest expense</b>	\$ 52,359	\$ 48,538	\$ 48,966	\$ 3,821	\$ \$ (428)	7.9	7.9 %	(0.9)%											
Efficiency ratio*	Efficiency ratio*	66.7	%	65.0	%	66.0	%																					
Number of full-time equivalent employees	Number of full-time equivalent employees	304		298		299																						
Number of full-time equivalent employees																												
Number of full-time equivalent employees																												

\* Efficiency ratio is calculated as non-interest expense as a percentage of total revenue. Total revenue **includes** is calculated as net interest income **and** plus non-interest income.

**Total non-interest expense** increased \$3.8 million, or 7.9%, to \$52.4 million for the year ended December 31, 2023 compared to the year ended December 31, 2022, and decreased \$0.4 million, or 0.9%, to \$48.5 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, and.

**Salaries** increased \$3.9 million \$2.7 million, or 8.8% 12.9%, to \$49.0 million \$23.3 million for the year ended December 31, 2021 December 31, 2023 compared to the year ended December 31, 2020.

**Salaries** December 31, 2022, and decreased \$0.1 million, or 0.5%, to \$20.6 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$1.0 million, or 4.8%, to \$20.7 million. The increase for the year ended December 31, 2021 compared to December 31, 2023 over the year ended December 31, 2020, December 31, 2022 was primarily due to the payment of severance due to the reduction in 35 full-time employees during the fourth quarter of 2023, payroll accruals, and

annual merit increases. The decrease for the year ended December 31, 2022 over the year ended December 31, 2021 was primarily due to decreases in incentive pay and deferred loan costs related to loan volume. The increase for the year ended December 31, 2021 over the year ended December 31, 2020 was primarily due to merit increases and incentive pay related to loan volume.

**Employee benefits** decreased \$0.7 million, or 11.6%, to \$5.7 million for the year ended December 31, 2023 compared to the year ended December 31, 2022, and decreased \$0.5 million, or 7.1%, to \$6.4 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$0.6 million, or 8.7%, to \$6.9 million. The decrease for the year ended December 31, 2021 December 31, 2023 over the year ended December 31, 2022 was primarily due to a decrease in 401(k) plan contributions and pension cost due to lower annual discount rate assumptions compared to the year ended December 31, 2020, prior year's annual assumptions. The decrease for the year ended December 31, 2022 over the year ended December 31, 2021 was primarily due to a decrease in 401(k) plan contributions, medical premiums, and pension cost due to higher lower annual discount rate assumptions compared to the prior year's annual assumptions. The increase for the year ended December 31, 2021 over the year ended December 31, 2020 was primarily due to higher pension cost due to lower annual discount rate assumptions compared to the prior year's annual assumptions, and an increase in 401(k) plan contributions.

**Processing, network, and bank card expense** increased \$0.04 million, or 0.8%, to \$4.8 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$0.9 million, or 23.0%, to \$4.8 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase for the year ended December 31, 2022 over the year ended December 31, 2021 was primarily due to increases in credit card and ATM interchange fees partially offset by decreases in network expense. The increase for the year ended December 31, 2021 over the year ended December 31, 2020 was primarily due to increases in network, processing, and debit card processing expenses.

**Legal, examination, and professional fees** increased \$0.9 million, or 53.9%, to \$2.5 million for the year ended December 31, 2023 compared to the year ended December 31, 2022, and decreased \$1.4 million, or 46.1%, to \$1.6 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$1.6 million, or 107.4%, to \$3.0 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The changes for 2023 over 2022 primarily related to a write off of consulting fees related to a digital account opening project that was canceled during the years ended fourth quarter of 2023. The changes for 2022 over 2021 and 2021 over 2020 were related to \$1.5 million in legal fees accrued as of December 31, 2021 for a lawsuit that was settled resolved in January 2022.

**Other non-interest Loan expense** increased \$1.4 million \$0.4 million, or 30.7% 63.4%, to \$5.9 million \$0.9 million for the year ended December 31, 2023 compared to the year ended December 31, 2022, and decreased \$0.2 million, or 30.0%, to \$0.6 million for the year ended December 31, 2022 compared to the year ended December 31, 2021, and increased \$0.2 million, or 4.6%, to \$4.5 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase changes for the year ended December 31, 2022 2023 over the year ended December 31, 2021 was primarily related to the change in the fair value of mortgage banking derivatives, as well as increases in insurance expense, telephone, donations, and software expense related to network upgrades and maintenance agreements. The increase in the year ended December 31, 2021 over the year ended December 31, 2020 2022 was primarily due to increases in FDIC assessment expense, deposit product expense, software expense the recognition of an adjustment to an unearned dealers reserve related to new mortgage loan software, and telephone and internet expense related to a bank-wide telephone system upgrade and new system providers, prior years' activity in the first quarter of 2023.

#### Income Taxes (Benefit)

Income taxes as a percentage of earnings before income taxes as reported in the consolidated financial statements were 17.3% (121.5%) for the year ended December 31, 2022 December 31, 2023 compared to 20.2% 17.3% and 18.2% 20.2% for the years ended December 31, 2021 December 31, 2022 and 2020 2021, respectively.

The decrease in the effective tax rate for the year ended December 31, 2022 December 31, 2023 compared to the year ended December 31, 2021 December 31, 2022 was primarily attributable to the decrease in earnings, increase in tax-exempt income, and the benefit recorded pertaining to the historical tax credit. The increase in the effective tax rate for the year ended December 31, 2021 December 31, 2022 compared to the year ended December 31, 2020 December 31, 2021 was primarily attributable to an increase in earnings and an increase in state taxes attributed to elevated earnings. The effective tax rate for each of the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021, respectively, is lower than the U.S. federal statutory rate of 21% primarily due to tax-free revenues, income.

#### Lending and Credit Management

Interest earned on the loan portfolio is a primary source of interest income for the Company. Net loans Loans held for investment represented 78.3% 80.8% of total assets as of December 31, 2022 December 31, 2023 compared to 70.2% 78.3% as of December 31, 2021 December 31, 2022.

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 regional 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.

#### A summary of loans, by major class

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

(In thousands)	(In thousands)	2022	2021
Commercial, financial, and agricultural (a)	\$	244,549	\$ 217,214
(In thousands)			

(in thousands)					
Commercial, financial, and agricultural					
Commercial, financial, and agricultural					
Commercial, financial, and agricultural					
Real estate construction – residential					
Real estate construction – residential					
Real estate construction	Real estate construction				
– residential	– residential		32,095		27,920
Real estate construction	Real estate construction				
– commercial	– commercial		137,235		91,369
Real estate construction – commercial					
Real estate construction – commercial					
Real estate mortgage – residential					
Real estate mortgage – residential					
Real estate mortgage –	Real estate mortgage –				
residential	residential		361,025		279,346
Real estate mortgage –	Real estate mortgage –				
commercial	commercial		722,729		663,256
Real estate mortgage – commercial					
Real estate mortgage – commercial					
Installment and other consumer					
Installment and other consumer					
Installment and other	Installment and other				
consumer	consumer		23,619		23,028
<b>Total loans</b>	<b>Total loans</b>	\$	1,521,252	\$	1,302,133
<b>Total loans</b>					
<b>Total loans</b>					
<b>Percent of categories to total loans:</b>					
<b>Percent of categories to total loans:</b>					
<b>Percent of categories to total loans:</b>					
<b>Percent of categories to total loans:</b>					
Commercial, financial,	Commercial, financial,				
and agricultural	and agricultural		16.1	%	16.7
Commercial, financial, and agricultural					
Commercial, financial, and agricultural					
Real estate construction – residential					
Real estate construction – residential					
Real estate construction	Real estate construction				
– residential	– residential		2.1		2.1
Real estate construction	Real estate construction				
– commercial	– commercial		9.0		7.0
Real estate construction – commercial					
Real estate construction – commercial					
Real estate mortgage – residential					
Real estate mortgage – residential					
Real estate mortgage –	Real estate mortgage –				
residential	residential		23.7		21.5
Real estate mortgage –	Real estate mortgage –				
commercial	commercial		47.5		50.9
Real estate mortgage – commercial					
Real estate mortgage – commercial					
Installment and other consumer					

Installment and other consumer			
Installment and other consumer	Installment and other consumer	1.6	1.8
<b>Total</b>	<b>Total</b>	100.0	%
<b>Total</b>		100.0	
<b>Total</b>		%	

(a) Includes \$0.01 million and \$8.4 million SBA PPP loans, net at December 31, 2022 and 2021, respectively.

The Company extends credit to its local community market through traditional real estate mortgage products. The Company does not participate in credit extensions to sub-prime residential real estate markets. The Company does not lend funds for the type of 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. The Company does not have any interest-earning assets that would have been included in non-accrual, past due, or restructured loans if such assets were loans.

The contractual maturities of loan categories at December 31, 2022 and the composition of those loans between fixed rate and floating rate loans are as follows:

Principal Payments Due										
Principal Payments Due										
(in thousands)										
(in thousands)										

Real estate construction – residential	Real estate construction – residential	13,424	806	1,419	—	15,649	Real estate construction – residential	10,791	1,712	705	—
Real estate construction – commercial	Real estate construction – commercial	12,240	53,929	32,838	52	99,059	Real estate construction – commercial	14,133	72,686	20,758	0
Real estate mortgage – residential	Real estate mortgage – residential	11,649	42,990	22,137	32,751	109,527	Real estate mortgage – residential	6,073	44,489	21,804	43,759
Real estate mortgage – commercial	Real estate mortgage – commercial	52,445	301,495	78,255	6,329	438,524	Real estate mortgage – commercial	32,600	351,463	44,827	6,211
Installment and other consumer	Installment and other consumer	1,086	16,212	4,021	—	21,319	Installment and other consumer	1,631	15,472	2,072	—
<b>Total</b>	<b>Total</b>	<b>111,932</b>	<b>484,942</b>	<b>173,913</b>	<b>39,965</b>	<b>810,752</b>	<b>Total</b>	<b>80,065</b>	<b>570,589</b>	<b>114,859</b>	<b>49,970</b>
<b>Loans with floating rates</b>	<b>Loans with floating rates</b>										
Commercial, financial, and agricultural	Commercial, financial, and agricultural	\$ 55,195	\$ 10,793	\$ 21,288	\$ 30,599	\$ 117,875					
Commercial, financial, and agricultural	Commercial, financial, and agricultural										
Real estate construction – residential	Real estate construction – residential	10,195	1,017	270	4,964	16,446					
Real estate construction – commercial	Real estate construction – commercial	17,183	4,051	4,325	12,617	38,176					
Real estate mortgage – residential	Real estate mortgage – residential	7,222	4,253	46,059	193,964	251,498					
Real estate mortgage – commercial	Real estate mortgage – commercial	22,722	38,562	86,094	136,827	284,205					
Installment and other consumer	Installment and other consumer	2,300	—	—	—	2,300					
<b>Total</b>	<b>Total</b>	<b>114,817</b>	<b>58,676</b>	<b>158,036</b>	<b>378,971</b>	<b>710,500</b>					
<b>Total loans</b>	<b>Total loans</b>	<b>\$226,749</b>	<b>\$543,618</b>	<b>\$331,949</b>	<b>\$418,936</b>	<b>\$1,521,252</b>					

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. For the year ended December 31, 2022 December 31, 2023, the Company sold approximately \$87.2 million \$106.2 million of loans to investors compared to \$206.6 million \$87.2 million and \$195.9 million \$206.6 million for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. At December 31, 2022 December 31, 2023, the Company was servicing approximately \$240.5 million \$220.7 million of loans sold to the secondary market compared to \$240.5 million at December 31, 2022, and \$270.0 million at December 31, 2021, and \$292.7 million at December 31, 2020.

#### Risk Elements of the Loan Portfolio

Management, internal loan review and the senior loan committee and the internal loan review department 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, on a monthly

basis, at scheduled meetings: past due, classified, and watch list loans in order to classify or reclassify loans as loans requiring attention, substandard, doubtful, or loss. During this review, management also determines which will evaluate individual loans should be considered impaired, for expected credit losses when those loans do not share similar risk characteristics with loans evaluated using a collective (pooled) basis. Management follows the guidance provided by the Financial Accounting Standards Board ("FASB") under Board's (FASB) Accounting Standards Codification ("ASC") Topic 310-10-35 in identifying and measuring loan impairment. If

Codification (ASC) Topic 326-20-30-2. 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 considered to be impaired. These loans are evaluated individually for impairment, analyzed and in conjunction with current economic conditions and loss experience, specific reserves are estimated as further discussed below.

Loans not individually evaluated are aggregated and collectively analyzed. Under ASC 326-20-30-2 and ASC 326-20-55-5, the Company should aggregate financial assets based on similar risk characteristics. 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 historical loan quantitative peer group historic loss experience, forecasts over the estimated life of the loan type; loss emergence factors; 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; non-accrual 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. Based upon these procedures, both the allowance and provision for loan losses are adjusted to maintain the allowance at a level considered necessary by management to provide for probable losses inherent in the loan portfolio.

#### Nonperforming Non-Performing Assets

The following table summarizes nonperforming non-performing assets:

			December 31,	
			December 31,	
			December 31,	
			December 31,	
(in thousands)				
(in thousands)				
(in thousands)	(in thousands)		2022	2021
<b>Non-accrual loans:</b>	<b>Non-accrual loans:</b>			
<b>Non-accrual loans:</b>				
Commercial, financial, and agricultural	Commercial, financial, and agricultural	\$	121	\$ 153
Commercial, financial, and agricultural				
Commercial, financial, and agricultural				
Real estate construction – residential				
Real estate construction – residential				
Real estate construction – residential				
Real estate construction – commercial				
Real estate construction – commercial				
Real estate construction – commercial	Real estate construction – commercial		87	105
Real estate mortgage – residential	Real estate mortgage – residential		685	1,129
Real estate mortgage – residential				
Real estate mortgage – residential				
Real estate mortgage – commercial				
Real estate mortgage – commercial				
Real estate mortgage – commercial	Real estate mortgage – commercial		17,801	24,029
Installment and other consumer	Installment and other consumer		6	43

Installment and other consumer					
Installment and other consumer					
<b>Total</b>	<b>Total</b>	\$	18,700	\$	25,459
<b>Total</b>					
<b>Total</b>					
<b>Loans contractually past - due 90 days or more and still accruing:</b>					
<b>Loans contractually past - due 90 days or more and still accruing:</b>					
<b>Loans contractually past - due 90 days or more and still accruing:</b>	<b>Loans contractually past - due 90 days or more and still accruing:</b>				
Real estate mortgage – residential	Real estate mortgage – residential	\$	—	\$	14
Real estate mortgage – residential					
Real estate mortgage – residential					
Installment and other consumer					
Installment and other consumer					
Installment and other consumer	Installment and other consumer		1		—
<b>Total</b>	<b>Total</b>	\$	1	\$	14
<b>Total</b>					
<b>Total</b>					
<b>Total non-performing loans (a)</b>					
<b>Total non-performing loans (a)</b>					
Total non-performing loans (a)	Total non-performing loans (a)		18,701		25,473
Other real estate owned and repossessed assets and repossessed assets	Other real estate owned and repossessed assets and repossessed assets		8,795		10,525
Other real estate owned and repossessed assets					
Other real estate owned and repossessed assets					
<b>Total non-performing assets</b>					
<b>Total non-performing assets</b>					
<b>Total non-performing assets</b>	<b>Total non-performing assets</b>	\$	27,496	\$	35,998
Loans held for investment	Loans held for investment	\$	1,521,252	\$	1,302,133
Allowance for loan losses to loans	1.02	%		1.30	%
Loans held for investment					
Loans held for investment					
Allowance for credit losses to loans					
Allowance for credit losses to loans					
Allowance for credit losses to loans					
Non-accrual loans to total loans	Non-accrual loans to total loans				
Non-accrual loans to total loans	1.23	%		1.96	%
Non-performing loans to total loans (a)	1.23	%		1.96	%
Non-performing assets to total loans (b)	1.81	%		2.76	%
Non-performing assets to total assets (b)	1.43	%		1.97	%
Allowance for loan losses to non-accrual loans	83.36	%		66.39	%
Allowance for loan losses to non-performing loans	83.35	%		66.36	%
Non-accrual loans to total loans					
Non-accrual loans to total loans					
Non-performing loans to loans (a)					

Non-performing loans to loans (a)
Non-performing loans to loans (a)
Non-performing assets to loans (b)
Non-performing assets to loans (b)
Non-performing assets to loans (b)
Non-performing assets to assets (b)
Non-performing assets to assets (b)
Non-performing assets to assets (b)
Allowance for credit losses to non-accrual loans
Allowance for credit losses to non-accrual loans
Allowance for credit losses to non-accrual loans
Allowance for credit losses to non-performing loans
Allowance for credit losses to non-performing loans
Allowance for credit losses to non-performing loans

(a) Non-performing loans include loans 90 days past due and accruing, non-accrual loans, and non-performing TDRs (defined below) included in non-accrual loans, and 90 days past due.

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

Total non-performing assets were \$8.2 million, or 0.53% of total loans, at December 31, 2023 compared to \$27.5 million, or 1.81% of total loans, at December 31, 2022 compared to \$36.0 million, or 2.76% of total loans, at December 31, 2021.

Total non-accrual loans at December 31, 2022 December 31, 2023 decreased \$6.8 million \$12.4 million to \$6.3 million compared to \$18.7 million compared to \$25.5 million at December 31, 2021 December 31, 2022. The decrease in non-accrual loans was primarily due to three large commercial real-estate non-accrual loan relationships returning to accrual status. The Company's asset quality continues to improve during a turbulent economic environment.

Loans past due 90 days and still accruing interest at December 31, 2022 December 31, 2023, were \$1,000 \$119,387 compared to \$14,000 \$1,248 at December 31, 2021 December 31, 2022. Other real estate owned and repossessed assets at December 31, 2022 December 31, 2023 were \$8.8 million \$1.7 million compared to \$10.5 million \$8.8 million at December 31, 2021 December 31, 2022. During the year ended December 31, 2022 December 31, 2023, \$0.2 million \$0.1 million of non-accrual loans, net of charge-offs taken, moved to other real estate owned and repossessed assets compared to \$0.7 million \$0.2 million for the year ended December 31, 2021 December 31, 2022.

As of December 31, 2022, approximately \$12.8 million compared to \$13.8 million at December 31, 2021, of loans classified as substandard, which include loans classified as performing troubled debt restructurings ("TDRs")

**Provision and are not included in the non-performing asset table, were identified as potential problem loans having more than normal risk which raised doubts as to the ability of the borrower to comply with present loan repayment terms. Management believes the general allowance was sufficient to cover the risks Allowance for Credit Losses on Loans and probable losses related to such loans at December 31, 2022 and December 31, 2021, respectively.**

The following table summarizes the Company's TDRs at the dates indicated:

	December 31, 2022			December 31, 2021			
	(In thousands)	Number of contracts	Recorded Investment	Specific Reserves	Number of contracts	Recorded Investment	Specific Reserves
<b>Performing TDRs</b>							
Commercial, financial and agricultural	2	\$ 174	\$ 22		2	\$ 188	\$ 24
Real estate mortgage – residential	6	1,178	61		6	1,262	56
Real estate mortgage – commercial	2	309	53		2	328	38
Installment and other consumer	—	—	—		2	17	2
<b>Total performing TDRs</b>	<b>10</b>	<b>\$ 1,661</b>	<b>\$ 136</b>		<b>12</b>	<b>\$ 1,795</b>	<b>\$ 120</b>
<b>Non-performing TDRs</b>							
Real estate mortgage – residential	3	219	28		5	561	39
Real estate mortgage – commercial	1	48	6		—	—	—
<b>Total non-performing TDRs</b>	<b>4</b>	<b>\$ 267</b>	<b>\$ 34</b>		<b>5</b>	<b>\$ 561</b>	<b>\$ 39</b>
<b>Total TDRs</b>	<b>14</b>	<b>\$ 1,928</b>	<b>\$ 170</b>		<b>17</b>	<b>\$ 2,356</b>	<b>\$ 159</b>

At December 31, 2022, loans classified as TDRs totaled \$1.9 million, with \$0.2 million of specific reserves compared to \$2.4 million of loans classified as TDRs, with \$0.2 million of specific reserves at December 31, 2021. Both performing and non-performing TDRs are considered impaired loans. When an individual loan is determined to be a TDR, the amount of impairment is based upon the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the underlying collateral less applicable selling costs if the loan is collateral dependent. The net decrease in total TDRs from December 31, 2021 to December 31, 2022 was primarily due to approximately \$0.5 million of payments received on TDRs.

## Liability for Unfunded Commitments

### Allowance for Loan Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which provides for the CECL credit loss model. The adoption of the standard resulted in an increase to the allowance for credit losses of \$5.8 million and **Provision**.

**Allowance** a **liability** for **Loan Losses** **unfunded commitments** totaling **\$1.3 million**. These one-time cumulative adjustments resulted in a **\$5.6 million tax-effected decrease to retained earnings**.

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

		December 31,				December 31,							
		2022		2021		2023		2023					
(in thousands)	(in thousands)	Amount	% of loans in each category to total loans		Amount	% of loans in each category to total loans		Amount	% of loans in each category to total loans				
<b>Allocation of allowance for loan losses at end of period:</b>													
(in thousands)													
<b>Allocation of allowance for credit losses at end of period:</b>													
<b>Allocation of allowance for credit losses at end of period:</b>													
<b>Allocation of allowance for credit losses at end of period:</b>													
Commercial, financial, and agricultural	Commercial, financial, and agricultural	\$ 2,735	16.1	%	\$ 2,717	16.7	%						
Real estate construction – residential	Real estate construction – residential	157	2.1		137	2.1							
Real estate construction – residential	Real estate construction – residential												
Real estate construction – commercial	Real estate construction – commercial												
Real estate construction – commercial	Real estate construction – commercial	875	9.0		588	7.0							
Real estate mortgage – residential	Real estate mortgage – residential	3,329	23.7		2,482	21.5							
Real estate mortgage – residential	Real estate mortgage – residential												
Real estate mortgage – commercial	Real estate mortgage – commercial												
Real estate mortgage – commercial	Real estate mortgage – commercial												

Real estate mortgage – commercial	Real estate mortgage – commercial	8,000	47.5	10,662	50.9
Installment and other consumer	Installment and other consumer	326	1.6	256	1.8
Installment and other consumer					
Installment and other consumer					
Unallocated					
Unallocated					
Unallocated	Unallocated	166	—	61	—
<b>Total</b>	<b>Total</b>	\$ 15,588	100.0 %	\$ 16,903	100.0 %
<b>Total</b>					
<b>Total</b>					

The allowance for loan credit losses was \$23.7 million, or 1.54%, of loans outstanding at December 31, 2023 compared to \$15.6 million, or 1.02%, of loans outstanding at December 31, 2022 compared to \$16.9 million, or 1.30%, of loans outstanding at December 31, 2021. The ratio of the allowance for loan credit losses to non-performing loans was 83.35% 370.25% at December 31, 2022 December 31, 2023, compared to 66.36% 83.35% at December 31, 2021 December 31, 2022.

#### **Provision for (Release of) Credit Losses / Loan Losses**

(in thousands)	2023	2022	2021
Provision for (release of) credit / loan losses on loans, respectively	\$ 2,665	\$ (900)	\$ (1,700)
Provision for (release of) credit losses for off-balance sheet commitments	(325)	—	—
<b>Total Provision for (release of) credit losses</b>	<b>\$ 2,340</b>	<b>\$ (900)</b>	<b>\$ (1,700)</b>

The Company recognized a provision for credit losses of \$2.3 million for the year ended December 31, 2023 compared to a \$0.9 million and \$1.7 million release of provision for loan losses for the years ended December 31, 2022 and 2021, respectively. The increase in the provision in the fourth quarter of 2023 resulted from a \$1.3 million increase in a specific reserve resulting from the downgrade of one commercial loan relationship. The release of provision expense for 2022 was driven in part from the release of specific reserves totaling \$2.8 million in the first quarter of 2022 due to returning significant commercial real-estate loan balances to accruing from non-accrual status or other collateral valuation adjustments.

The following table is a summary of the general and specific allocations of the allowance for loan losses: net charge-offs to average loans:

(in thousands)	December 31,	
	2022	2021
<b>Allocation of allowance for loan losses:</b>		
Individually evaluated for impairment – specific reserves		
\$ 258	\$ 3,044	
Collectively evaluated for impairment – general reserves	15,330	13,859
<b>Total</b>	<b>\$ 15,588</b>	<b>\$ 16,903</b>

The specific reserve component applies to loans evaluated individually for impairment. The net carrying value of impaired loans is generally based on the fair values of collateral obtained through independent appraisals and/or internal evaluations, or by discounting the total expected future cash flows. Once the impairment amount is calculated, a specific reserve allocation is recorded. At December 31, 2022, \$0.3 million of the Company's allowance for loan losses was allocated to impaired loans totaling approximately \$20.4 million, compared to \$3.0 million of the Company's allowance for loan losses allocated to impaired loans totaling approximately \$27.3 million at December 31, 2021. Management determined that \$17.7 million, or 87%, of total impaired loans required no reserve allocation at December 31, 2022 compared to \$16.6 million, or 61%, at December 31, 2021, primarily due to adequate collateral values, acceptable payment history and adequate cash flow ability.

The incurred loss component of the general reserve, or loans collectively evaluated for impairment, is determined by applying loss rates to pools of loans by asset type. Loans not individually evaluated are aggregated by risk characteristics and reserves are recorded using a consistent methodology that considers historical loan loss experienced by loan type. The look-back period begins with loss history in the first quarter of 2012 as the starting point through the current quarter. Management determined that the look-back period should be expanded until a loss producing downturn is recognized. This would be accomplished by allowing the look-back period to shift forward by eliminating the earliest loss period and replenishing it with losses from the most recent period. The look-back period is consistently evaluated for relevance given the current facts and circumstances.

These historical loss rates for each risk group are used as the starting point to determine loss rates for measurement purposes. The historical loan loss rates are multiplied by loss emergence periods, which represent the estimated time period between a borrower first experiencing financial difficulty and the recognition of a loss.

The Company's methodology includes qualitative risk factors that allow management to adjust its estimates of losses based on the most recent information available and to address other limitations in the quantitative component that is based on historical loss rates. Such risk factors are generally reviewed and updated quarterly, as appropriate, and are adjusted to reflect changes in national and local economic conditions and developments, the nature, volume and terms of loans in the portfolio, including changes in volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans, loan concentrations, assessment of trends in collateral values,

assessment of changes in the quality of the Company's internal loan review department, and changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices.

The specific and general reserve allocations represent management's best estimate of probable losses inherent in the loan portfolio at the evaluation date. Although the allowance for loan losses is comprised of specific and general allocations, the entire allowance is available to absorb any credit losses.

The decrease in the allowance for loan losses from December 31, 2021 to December 31, 2022 primarily resulted from transitioning loans impacted by COVID-19 from non-accrual status back to performing status, partially offset by additional loan growth. This transition was made according to the Company's established internal loan policies regarding loan performance as well as outside consultation of industry experts. This transition back to performing status also reduced specific reserves based on the attributes of the individual loan collateral to the general allocations method described above. The Company continues to monitor the risks associated with its non-performing loans.

#### Provision

The Company recognized a negative provision expense for loan losses of \$0.9 million for the year ended December 31, 2022 compared to a negative provision expense of \$1.7 million and a provision expense of \$5.8 million for the years ended December 31, 2021 and 2020, respectively. The negative provision expense in 2022 and 2021 primarily resulted from returning significant loan balances to accrual status from non-accrual status. Uncertain economic conditions resulting from the COVID-19 pandemic impacted the recognition of provision expense in 2020.

(In thousands)	December 31, 2023			December 31, 2022		
	Net Charge-offs (Recoveries)		Net Charge-offs (Recoveries) / Average Loans	Net Charge-offs (Recoveries)		Net Charge-offs (Recoveries) / Average Loans
	\$	\$		\$	\$	
Commercial, financial, and agricultural	\$ (31)	\$ 230,988	(0.01)%	\$ 79	\$ 236,228	0.03 %
Real estate construction – residential	—	50,497	—	—	24,766	—
Real estate construction – commercial	(22)	136,455	(0.02)	(22)	115,424	(0.02)
Real estate mortgage – residential	65	370,024	0.02	(45)	313,926	(0.01)
Real estate mortgage – commercial	28	734,657	—	170	692,712	0.02
Installment and other consumer	262	22,307	1.17	233	23,237	1.00
<b>Total</b>	<b>\$ 302</b>	<b>\$ 1,544,928</b>	<b>0.02%</b>	<b>\$ 415</b>	<b>\$ 1,406,293</b>	<b>0.03%</b>

#### Net Loan Charge-offs (Recoveries)

The Company's net loan charge-offs were \$0.3 million, or 0.02% of average loans, for the year ended December 31, 2023 compared to net charge-offs of \$0.4 million, or 0.03% of average loans, for the year ended December 31, 2022 compared to net recoveries of \$0.5 million, or 0.04% of average loans, for the year ended December 31, 2021.

The following table is a summary of net charge-offs (recoveries) to average loans:

(In thousands)	December 31, 2022			December 31, 2021		
	Net Charge-offs (Recoveries)		Net Charge-offs (Recoveries) / Average Loans	Net Charge-offs (Recoveries)		Net Charge-offs (Recoveries) / Average Loans
	\$	\$		\$	\$	
Commercial, financial, and agricultural	\$ 79	\$ 236,228	0.03 %	\$ (27)	\$ 245,779	(0.01)%
Real estate construction – residential	—	24,766	—	(13)	34,357	(0.04)
Real estate construction – commercial	(22)	115,424	(0.02)	(475)	78,068	(0.61)
Real estate mortgage – residential	(45)	313,926	(0.01)	(168)	267,722	(0.06)
Real estate mortgage – commercial	170	692,712	0.02	40	631,612	0.01
Installment and other consumer	233	23,237	1.00	153	24,681	0.62
<b>Total</b>	<b>\$ 415</b>	<b>\$ 1,406,293</b>	<b>0.03%</b>	<b>\$ (490)</b>	<b>\$ 1,282,219</b>	<b>(0.04)%</b>

#### Loans Held For Sale

The Company designates certain long-term fixed rate personal real estate loans as held for sale. In the fourth quarter of 2021, the Company elected These loans are initially measured at fair value under the fair value option for all newly originated long-term personal real estate loans held for sale.

election with subsequent changes in fair value recognized in mortgage banking income. The loans are primarily sold to Freddie Mac, Fannie Mae, and PennyMac and other various secondary-market secondary market investors. At December 31, 2022 December 31, 2023, the carrying amount of these loans was \$0.6 million \$3.9 million compared to \$2.2 million \$0.6 million at December 31, 2021 December 31, 2022.

#### Investment Portfolio

The Company's investment portfolio consists of securities classified as available-for-sale, equity or other. Available-for-sale debt securities, the largest component, are carried at estimated fair value. Unrealized holding gains and losses from available-for-sale securities are excluded from earnings and reported, net of applicable taxes, as a separate component of stockholders' equity until realized.

The Company does not engage in trading activities and, accordingly, does not have any debt or equity securities classified as trading securities. Historically, the Company's practice was to purchase and hold debt instruments until maturity unless special circumstances existed. However, since the investment portfolio's major function is to provide liquidity and to balance the Company's interest rate sensitivity position, all debt securities are now classified as available-for-sale.

At December 31, 2022 December 31, 2023, the investment portfolio classified as available-for-sale represented 13.0% 10.1% of total consolidated assets. Future levels of investment securities can be expected to vary depending upon liquidity and interest-sensitivity interest sensitivity needs as well as other factors.

#### Available-for-Sale

##### Available- for-Sale Securities

The following table presents the composition of the investment portfolio and related fair value by major category:

(In thousands)	(In thousands)	2022	2021	(In thousands)			2023			2022
U.S.	U.S.									
Treasury	Treasury	\$ 2,152	\$ 3,917	U.S. Treasury			\$ 1,978	\$ 2,152		
U.S.	U.S.									
government	government									
and federal	and federal									
agency	agency									
obligations	obligations	559	1,319	U.S. government and federal agency obligations			427		559	
U.S.	U.S.									
government-	government-									
sponsored	sponsored									
enterprises	enterprises	23,777	26,372	U.S. government-sponsored enterprises			21,822		23,777	
Obligations	Obligations									
of states	of states									
and political	and political									
subdivisions	subdivisions	109,440	129,224	Obligations of states and political subdivisions			106,885		109,440	
Mortgaged-	Mortgaged-									
backed	backed									
securities	securities	102,699	136,466	Mortgaged-backed securities			45,640		102,699	
Other debt	Other debt									
securities	securities									
(a)	(a)	10,943	12,284	Other debt securities (a)			10,821		10,943	
Bank issued	Bank issued									
trust	trust									
preferred	preferred									
securities	securities									
(a)	(a)	1,177	1,288	Bank issued trust preferred securities (a)			1,169		1,177	
<b>Total</b>	<b>Total</b>									
<b>available-</b>	<b>available-</b>									
<b>for-sale</b>	<b>for-sale</b>									
<b>debt</b>	<b>debt</b>									
<b>securities,</b>	<b>securities,</b>									
at fair value	at fair value	\$ 250,747	\$ 310,870	<b>Total available-for-sale debt securities, at fair value</b>			\$ 188,742	\$ 250,747		

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

As of December 31, 2022 December 31, 2023, the expected maturity and tax-equivalent yield in the investment portfolio was as follows:

(In thousands)	(In thousands)	Over 1		Over 5		Over	(In thousands)	1 Year	Over 1		Over 5		Over	
		1 Year	through	5 Years	through				10 Years	Yield	Through	5 Years	10 Years	
U.S.	U.S.													
Treasury	Treasury	\$ 556	2.80 %	\$ 1,596	2.87 %	\$ —	— %	\$ —	— %	\$ 2,152	2.85 %	\$ 1,978	5.24 %	\$ —
U.S.	U.S.													
government	government													
and federal	and federal													
agency	agency													
obligations	obligations	—	—	559	2.16	—	—	—	—	559	2.16	—	—	— %

U.S.	U.S.										
government- sponsored enterprises	government- sponsored enterprises	4,799	0.50	10,493	1.43	8,485	1.64	—	—	23,777	1.32
States and political subdivisions (2)		3,934	1.75	3,454	2.61	7,572	2.12	94,480	2.29	109,440	2.27
Mortgage-backed securities (1)		—	—	1,276	2.18	23,805	1.63	77,618	1.82	102,699	1.78
States and political subdivisions (1)											
Mortgage- backed securities (2)											
Other debt securities	Other debt securities	—	—	—	—	10,943	4.98	—	—	10,943	4.98
Bank issued trust preferred securities	Bank issued trust preferred securities	—	—	—	—	—	—	1,177	7.05	1,177	7.05
<b>Total available- for-sale debt securities</b>	<b>Total available- for-sale debt securities</b>	<b>\$9,289</b>	<b>1.17 %</b>	<b>\$17,378</b>	<b>1.88 %</b>	<b>\$50,805</b>	<b>2.43 %</b>	<b>\$173,275</b>	<b>2.11 %</b>	<b>\$250,747</b>	<b>2.08 %</b>
<b>Equity securities</b>	<b>Equity securities</b>										
Federal Agricultural Mortgage Corporation		\$ —	— %	\$ —	— %	\$ —	— %	\$ 46	3.55 %	\$ 46	3.55 %
<b>Equity securities</b>											
<b>Equity securities</b>											
Federal Agriculture Mortgage Corporation											
<b>Federal Agriculture Mortgage Corporation</b>											
Federal Agriculture Mortgage Corporation											
<b>Federal Agriculture Mortgage Corporation</b>											
		\$ —	— %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 78	3.77 %

(1) Rates on obligations of states and political subdivisions have been adjusted to fully taxable equivalent rates using the statutory federal income tax rate of 21%.

(2) Mortgage-backed securities have been included using historic repayment speeds. Repayment speeds were determined from actual portfolio experience during the 12 months ended December 31, 2022 December 31, 2023 calculated separately for each mortgage-backed security. These repayment speeds are not necessarily indicative of future repayment speeds and are subject to change based on changing mortgage interest rates. The tax equivalent yield is calculated on amortized cost using a level yield method and a 21% tax rate.

(2) Rates on obligations of states and political subdivisions have been adjusted to fully taxable equivalent rates using the statutory federal income tax rate of 21%.

At December 31, 2022 December 31, 2023, \$12.2 million \$13.3 million of debt securities classified as available-for-sale in the table above had variable rate provisions with adjustment periods ranging from one week to 12 twelve months.

#### Other Investment Securities

Other investment securities include equity securities with readily determinable fair values and other investments 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.

(In thousands)	(In thousands)	2022	2021	(In thousands)		2023		2022
FHLB stock	FHLB stock	\$6,156	\$5,197	FHLB stock		\$ 6,071	\$ 6,156	
MIB stock	MIB stock	151	151	MIB stock		151		151

Equity securities with readily determinable fair values	Equity securities with readily determinable fair values	46	60	Equity securities with readily determinable fair values	78	46
<b>Total other investment securities</b>	<b>Total other investment securities</b>	<b>\$6,353</b>	<b>\$5,408</b>	<b>Total other investment securities</b>	<b>\$6,300</b>	<b>\$6,353</b>

#### Liquidity and Capital Resources

##### Liquidity Management

The role of liquidity management is to ensure funds are available to meet depositors' withdrawal demands 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 the 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.

The Company's Asset/Liability Committee, 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, federal funds sold, and excess reserves held at the Federal Reserve Bank.

(In thousands)	(In thousands)	2022	2021	(In thousands)	2023	2022
Federal funds sold	Federal funds sold	\$ 46	\$ 7,122			
Other interest-bearing deposits	Other interest-bearing deposits	65,013	135,500			
Certificates of deposit in other banks	Certificates of deposit in other banks	2,955	5,193			
Available-for-sale investment securities	Available-for-sale investment securities	250,747	310,870			
<b>Total</b>	<b>Total</b>	<b>\$318,761</b>	<b>\$458,685</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 **\$250.7 million** **\$188.7 million** at **December 31, 2022** **December 31, 2023** and included an unrealized net loss of **\$46.4 million** **\$27.2 million**. The portfolio includes projected maturities and mortgage-backed securities pay-downs of approximately **\$9.5 million** **\$2.1 million** over the next 12 months, which offer resources to meet either new loan demand or reductions in the Company's deposit base.

The Company pledges portions of its investment securities portfolio as collateral 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 required by law. The Company's unpledged securities in the available-for-sale portfolio totaled approximately **\$99.5 million** and **\$139.2 million** at December 31, 2023 and **\$35.5 million** at December 31, 2022 and 2021, 2022, respectively.

Total investment securities pledged for these purposes were as follows:

(In thousands)	(In thousands)	2022	2021	(In thousands)	2023	2022
Investment securities pledged for the purpose of securing:	Investment securities pledged for the purpose of securing:					
Federal Reserve Bank borrowings	Federal Reserve Bank borrowings	\$ 8,563	\$ 10,778			

Federal Reserve Bank borrowings	
Federal Reserve Bank borrowings	
Federal funds purchased and securities sold under agreements to repurchase	Federal funds purchased and securities sold under agreements to repurchase
Other deposits	Other deposits
<b>Total pledged, at fair value</b>	<b>Total pledged, at fair value</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. Such deposits totaled \$1.5 billion and represented 93.1% of the Company's total deposits at December 31, 2023, compared to \$1.5 billion and 91.7% of the Company's total deposits at December 31, 2022, compared to \$1.4 billion and 94.1% of the Company's total deposits at December 31, 2021. These core deposits are normally less volatile and are often tied to other products of the Company through long lasting relationships.

Core deposits at December 31, 2022 December 31, 2023 and 2021 2022 were as follows:

(In thousands)	(In thousands)	2022	2021	(In thousands)	2023	2022
Core deposit base:	Core deposit base:					
Non-interest bearing demand						
Non-interest bearing demand						
Non- interest bearing demand	Non- interest bearing demand	\$ 453,443	\$ 453,066			
Interest checking	Interest checking	440,611	357,825			
Savings and money market	Savings and money market	442,856	440,331			
Other time deposits	Other time deposits	160,175	175,828			
<b>Total</b>	<b>Total</b>	<b>\$1,497,085</b>	<b>\$1,427,050</b>			

Maturities of uninsured time deposits with balances over \$250,000 as of December 31, 2022 December 31, 2023 were as follows:

(in thousands)

Due within:		
Three months or less	\$ 40,568	39,593
Over three through six months	5,712	26,077
Over six through 12 months	34,842	40,152
Over 12 months	13,737	2,325
<b>Total</b>	<b>\$ 94,859</b>	<b>108,147</b>

Estimated uninsured deposits totaled \$387.1 million, including \$108.1 million of certificates of deposit, at December 31, 2023, compared to \$420.3 million, including \$94.9 million of certificates of deposit, at December 31, 2022, compared to \$513.5 million, including \$69.1 million of certificates of deposit, at December 31, 2021. The Company had brokered deposits totaling \$0.2 million and \$40.1 million at December 31, 2023 and \$20.2 million at December 31, 2022, respectively.

Included in the uninsured deposits at December 31, 2023 and December 31, 2022 are public fund deposits greater than \$250,000, which are collateralized by the Company totaling \$137.7 million and \$111.6 million, respectively. The estimated uninsured and uncollateralized deposits ratio to total deposits at December 31, 2023 and December 31, 2022 was 15% and 2021, 19%, 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 securities sold under agreements to repurchase, FHLB advances, 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 December 31, 2022 December 31, 2023, under agreements with these unaffiliated banks, the Bank may borrow up to \$60.0 million \$35.0 million in federal funds on an unsecured basis and up to \$8.1 million \$8.6 million on a secured basis. There were no federal funds purchased outstanding at December 31, 2022 December 31, 2023. Securities sold under agreements to repurchase are generally borrowed overnight and are secured by a portion of the Company's investment portfolio. At December 31, 2022, there The Company elected to discontinue the repurchase agreement product during 2023 and customers were \$5.2 million in repurchase agreements moved to reciprocal deposit products within the Company's deposit mix. 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 December 31, 2022 December 31, 2023.

As a member of the FHLB, the Bank has access to credit products of the FHLB. As of December 31, 2022 December 31, 2023, the Bank had \$98.0 million \$107.0 million in outstanding borrowings with the FHLB. In addition, the Company has \$49.5 million at December 31, 2022 December 31, 2023 in outstanding subordinated notes issued to wholly-owned grantor trusts, funded by preferred securities issued by the trusts.

Borrowings outstanding at December 31, 2022 December 31, 2023 and 2021 2022 were as follows:

(in thousands)	(in thousands)	2022	2021	(in thousands)	2023	2022
<b>Borrowings:</b>	<b>Borrowings:</b>					
Federal funds purchased and securities sold under agreements to repurchase	Federal funds purchased and securities sold under agreements to repurchase			\$ 5,187	\$ 23,829	
FHLB advances		98,000	77,418			
Federal funds purchased and securities sold under agreements to repurchase						
Federal funds purchased and securities sold under agreements to repurchase					\$ —	5,187
Federal Home Loan Bank advances					107,000	98,000
Subordinated notes	Subordinated notes	49,486	49,486	Subordinated notes	49,486	49,486
<b>Total</b>	<b>Total</b>	<b>\$152,673</b>	<b>\$150,733</b>	<b>Total</b>	<b>\$ 156,486</b>	<b>\$ 152,673</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 borrow from these entities. Based on the type and value of collateral pledged, the Company may draw advances against this collateral.

The following table reflects the advance equivalent of the assets pledged, borrowings, and letters of credit outstanding, in addition to the estimated future funding capacity available to the Company.

2022										2021										2023										2022										
2023										Federal										Federal										2023										
(In thousands)	(In thousands)	Federal Reserve			Funds Purchased			Federal Reserve			Funds Purchased			(In thousands)	Federal Reserve			Funds Purchased			Federal Reserve			Funds Purchased			(In thousands)	Federal Reserve			Funds Purchased			Federal Reserve			(In thousands)			
		FHLB	Bank	Lines	Total	FHLB	Bank	Lines	Total	FHLB	Bank	Lines	Total		FHLB	Bank	Lines	Total	FHLB	Reserve Bank	FHLB	Bank	Lines	Total	FHLB	Bank	Lines	Total	FHLB	Reserve Bank	FHLB	Bank	Lines	Total						
Advance equivalent	Advance equivalent	\$355,391	\$8,058	\$ 60,000	\$423,449	\$273,479	\$10,384	\$ 60,000	\$343,863																															
Letters of credit	Letters of credit	(47,500)	—	—	(47,500)	(31,000)	—	—	(31,000)																															
Advances outstanding	Advances outstanding	(98,000)	—	—	(98,000)	(77,418)	—	—	(77,418)																															
<b>Total available</b>	<b>Total available</b>	<b>\$209,891</b>	<b>\$8,058</b>	<b>\$ 60,000</b>	<b>\$277,949</b>	<b>\$165,061</b>	<b>\$10,384</b>	<b>\$ 60,000</b>	<b>\$235,445</b>																															

At December 31, 2022 December 31, 2023, loans of \$681.8 million \$708.3 million were pledged to the FHLB as collateral for borrowings and letters of credit. At December 31, 2022 December 31, 2023, investments with a market value of \$8.6 million \$9.0 million were pledged to secure federal funds purchase lines and borrowing capacity at the Federal Reserve Bank.

#### Sources and Uses of Funds

Cash and cash equivalents were \$93.5 million at December 31, 2023 compared to \$83.7 million at December 31, 2022 compared to \$159.9 million at December 31, 2021. The \$76.2 million decrease \$9.7 million increase 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 year ended December 31, 2022 December 31, 2023. Cash flow provided from operating activities consists mainly of net income adjusted for certain non-cash items. Operating activities provided cash flow of \$20.3 million \$17.6 million for the year ended December 31, 2022 December 31, 2023.

Investing activities, consisting mainly of purchases, sales and maturities of available-for-sale securities, and changes in the level of the loan portfolio, used provided total cash of \$206.5 million \$54.2 million. The cash outflow inflow primarily consisted of \$74.5 million from sales of securities and \$24.4 million from maturities and calls of securities, respectively. This was partially offset by a \$29.5 million purchase of securities and a net increase in loans held for investment of \$219.6 million and \$21.3 million \$18.3 million. The Company proactively elected a strategy to begin repositioning its balance sheet during the fourth quarter of 2023 by selling \$83.7 million in purchases book value of investment securities, partially offset by \$33.2 million from maturities with an average yield of 1.57%, for an after-tax realized loss of \$9.1 million. This is expected to be accretive to earnings, net interest margin and calls and sales of investment securities return on assets in future periods.

Financing activities provided used cash of \$110.1 million \$62.1 million, resulting primarily from a \$105.2 million increase \$128.4 million decrease in demand and interest-bearing transaction accounts, and a \$20.6 million increase in net FHLB advances accounts. This was partially offset by a \$18.6 million decrease \$67.1 million increase in securities sold under agreements time deposits. The Company utilized funding capacity with the FHLB by drawing advances of \$346.8 million and repaying \$337.8 million to repurchase. Future meet its short-term liquidity needs arising from daily operations are not expected to vary significantly during 2023 the year.

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 \$444.9 million \$406.0 million in unused loan commitments and standby letters of credit as of December 31, 2022 December 31, 2023. Although the Company's current liquidity sources are adequate to fund this commitment level, many of the unused commitments are expected to expire or be partially used, and does not necessarily represent future cash requirements.

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 and paying cash dividends to its shareholders. The Company paid cash dividends to its common shareholders totaling approximately \$4.2 million \$4.6 million and \$3.6 million \$4.2 million for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. A large portion of the Company's liquidity is obtained from the Bank in the form of dividends. The Bank declared and paid \$10.5 million \$9.0 million and \$7.5 million \$10.5 million in dividends to the Company during the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. At December 31, 2022 December 31, 2023 and 2021, 2022, the Company had cash and cash equivalents totaling \$2.5 million \$6.8 million and \$1.8 million \$2.5 million, respectively.

#### Capital Management

The Company and the Bank are is 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.

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act (the "Basel III Rules"). The phase-in period for the Company began on January 1, 2015. The Federal Reserve System's capital adequacy guidelines require that bank holding companies maintain a common equity Tier 1 risk-based capital ratio equal to at least 4.5% of its risk-weighted assets, a Tier 1 risk-based capital ratio equal to at least 6% of its risk-weighted assets and a total risk-based capital ratio equal to at least 8% of its risk-weighted assets. In addition, bank holding companies generally are required to maintain a Tier 1 leverage ratio of at least 4%.

In addition to the higher requirements, the Basel III Rules established that bank holding companies are required to maintain a common equity Tier 1 capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to

progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital conservation buffer requirement was phased in over four years beginning in 2016. On January 1, 2016, the first phase of the requirement went into effect at 0.625% of risk-weighted assets, and increased each subsequent year by an additional 0.625 percentage points, to reach its final level of 2.5% of risk-weighted assets on January 1, 2019. At December 31, 2019, the capital conservation buffer requirement of 2.5% effectively raised the minimum required risk-based capital ratios to 7% common equity Tier 1 capital, 8.5% Tier 1 capital and 10.5% total capital on a fully phased-in basis.

Under the Basel III Capital Rules, at December 31, 2022 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 of December 31, for the years indicated:

						Minimum Required to be Considered	
	Minimum Capital Required - Basel III		Well-Capitalized Under Prompt			Corrective Action	
	- Basel III		Under Prompt			Corrective Action	
	2022	2021	2020	In *	Banks	2023	2022
	2023	2022	2021	2020	In *	2023	2022
						Minimum Capital Required - Basel III	Well-Capitalized Under Prompt
Risk-based capital ratios:	Risk-based capital ratios:	Risk-based capital ratios:	Risk-based capital ratios:	Risk-based capital ratios:	Risk-based capital ratios:	Fully Phased-In	Corrective Action
Total capital ratio	Total capital ratio	13.85 %	14.79 %	14.97 %	10.5 %	10.0 %	Banks
Tier 1 capital ratio	Tier 1 capital ratio	12.52 %	13.59 %	13.37 %	8.5 %	8.0 %	
Common equity							
Tier 1 capital ratio		9.89 %	10.22 %	10.00 %	7.0 %	6.5 %	
Common Equity							
Tier 1 capital ratio							
Tier 1 leverage ratio	Tier 1 leverage ratio	10.76 %	11.01 %	10.19 %	4.0 %	5.0 %	
Stock Dividend							

For the fourteenth consecutive year, on July 1, 2022, the Company distributed a four percent stock dividend to common shareholders of record at the close of business on June 15, 2022. For all periods presented, share information, including basic and diluted earnings per share, has been adjusted retroactively to reflect the stock dividend.

### **Repurchase Program**

The Company's 2019 Repurchase Plan was amended during the second quarter of 2021 to authorize the purchase of up to \$5.0 million in market value of the Company's common stock. Management was given discretion to determine the number and pricing of the shares to be purchased, as well as the timing of any such purchases.

The Company repurchased 108,724 common shares under the plan during the year ended December 31, 2022, at an average cost of \$26.60 per share totaling \$2.9 million. As of December 31, 2022, \$2.1 million remained for share repurchase pursuant to that authorization.

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

The required payments of time deposits and other borrowed money, not including interest, at December 31, 2022 December 31, 2023 are as follows:

## Payments due by Period

REFINITIV CORPORATE DISCLOSURES | [www.refinitiv.com](http://www.refinitiv.com) | Contact Us

76/169

Payments due by Period										Payments due by Period				
(In thousands)	(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years	(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years		
Time deposits	Time deposits	\$255,034	\$182,953	\$ 64,222	\$ 7,859	\$ —								
Federal Home Loan Bank advances and other borrowed money		98,000	21,000	36,000	30,500	10,500								
FHLB advances and other borrowed money														
Subordinated notes	Subordinated notes	49,486	—	—	—	49,486								
Operating lease liabilities	Operating lease liabilities	1,712	367	515	521	309								
<b>Total</b>	<b>Total</b>	<b>\$404,232</b>	<b>\$204,320</b>	<b>\$100,737</b>	<b>\$38,880</b>	<b>\$60,295</b>								

In the normal course of business, the Company is party to activities that contain credit, market and operational risk that are not reflected in whole or in part in the Company's consolidated financial statements. Such activities include traditional off-balance-sheet credit related financial instruments.

The Company provides customers with off-balance-sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments, including both commitments to extend credit and letters of credit at December 31, 2022 December 31, 2023 are as follows:

Amount of Commitment Expiration per Period										Amount of Commitment Expiration per Period				
(In thousands)	(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years	(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years		
Unused loan commitments	Unused loan commitments	\$388,264	\$212,510	\$58,768	\$52,841	\$64,145								
Interest rate lock commitments	Interest rate lock commitments	6,331	6,331	—	—	—								
Forward sale commitments	Forward sale commitments	576	576	—	—	—								
Standby letters of credit	Standby letters of credit	49,740	49,740	—	—	—								
<b>Total</b>	<b>Total</b>	<b>\$444,911</b>	<b>\$269,157</b>	<b>\$58,768</b>	<b>\$52,841</b>	<b>\$64,145</b>								

Since many of the unused commitments are expected to expire or be only partially used, the total amount of commitments in the preceding table does not necessarily represent future cash requirements.

#### 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 Asset Liability Committee from direction of the Board of Directors. The Asset Liability Committee meets monthly quarterly to review, among other things, the sensitivity of the Company's assets and liabilities to interest rate changes, local and national market conditions and rates. The Asset Liability Committee 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 in year one based on the interest rate risk model at December 31, 2022 December 31, 2023 and 2021, 2022.

		% Change in projected net interest income							
		% Change in projected net interest income						% Change in projected net interest income	
Hypothetical shift in interest rates	Hypothetical shift in interest rates								
		December 31, 2022	December 31, 2021	Hypothetical shift in interest rates	(bps)	December 31, 2023		2022	
		(bps)	(bps)						
200	200	3.01 %	4.47 %	200		5.92 %	3.01		%
100	100	3.78 %	1.80 %	100		6.12 %	3.78		%
(100)	(100)	5.20 %	(3.12)%	(100)		7.08 %	5.20		%
(200)	(200)	5.80 %	(4.02)%	(200)		7.05 %	5.80		%

The change in the Company's interest rate risk exposure from December 31, 2021 December 31, 2022 to December 31, 2022 December 31, 2023 was primarily due to a change higher rates on interest bearing assets projected to reprice in the profile of the Company's earning 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 funding source for those assets same pace. In 2022, the balance of the loan portfolio down rate scenarios, interest bearing liabilities are projected to reprice faster than interest bearing assets providing increased by \$219 million. This growth was funded by drawing down on the significant federal funds balance that existed at December 31, 2021, in addition to significant growth in the types of deposits that reprice immediately as the federal funds rate changes. In 2022, the federal funds rate increased 425 bps. These factors have caused the Company's balance sheet to become more liability sensitive, where interest rate decreases translate into higher net interest income, income in a falling rate market. 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 because 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 December 31, 2022 December 31, 2023.

#### Impact of New Accounting Standards

**Financial Instruments.** In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This ASU eliminates the accounting guidance on troubled debt restructurings for creditors in ASC 310-40 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The amendments in this update are effective for fiscal years beginning after December 15, 2022 for entities that have adopted the amendments in ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*. The Company is evaluating the additional disclosure requirements and does not expect them to have a material effect on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL")*. The revised accounting guidance will remove all recognition thresholds and will require a company to recognize an allowance for credit losses for the difference between the amortized cost

basis of a

financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. It also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. This new accounting guidance is effective for interim and annual reporting periods beginning after December 15, 2022.

The Company's CECL committee implemented a model from a third-party vendor and continues to refine documentation and assumptions for transitioning to the CECL model effective January 1, 2023. In addition, the Company engaged an independent third-party firm experienced in CECL matters to perform a validation of the model. The Company currently expects to record a one-time adjustment to retained earnings to increase the allowance for loan losses. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time. Based on implementation progress to date, the Company believes the capital adequacy requirements to which it and the Bank are subject to, and its business strategies and practices, was not materially impacted following the adoption in the first quarter of 2023.

**Rate Reform.** In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in this update provided optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. It provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The amendments in this update were effective for all entities as of March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, *"Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848,"* which was effective upon issuance and deferred the sunset date in Topic 848 from December 31, 2022 to December 31, 2024. The trust-preferred subordinated debentures transitioned to an adjusted Secured Overnight Financing Rate (SOFR) index in accordance with the Federal Reserve's final rule implementing the Adjustable Interest Rate Act. The Company also identified its products that utilize LIBOR and has implemented enhanced fallback language to facilitate the transition to alternative reference rates, such as SOFR. The Company evaluated its systems and is currently evaluating offering alternative rates and is no longer offering LIBOR-indexed rates on newly originated loans. The Company completed its transition from LIBOR during the impact first quarter of 2023.

**Disclosure Improvements** The FASB issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative", in October 2023. The amendments in this update modify the disclosure or presentation requirements of a variety of topics in the codification. Certain amendments represent clarifications to or technical corrections of the reference rate reform current requirements. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The adoption is not expected to have a significant effect on the Company's consolidated financial statements.

**Income Taxes** The FASB issued ASU 2023-09, "Income Taxes (Topic 740) - Improvements to Income Tax Disclosures", in December 2023. The amendments in this update require additional disclosures regarding the rate reconciliation and income taxes paid. This Update also removed certain existing disclosure requirements. This Update is effective for annual periods beginning January 1, 2025. Early adoption is permitted. The amendments in this Update should be applied on a prospective basis, though retrospective application is permitted. Other than the inclusion of additional disclosures, the adoption is not expected to have a significant effect on the Company's consolidated financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of the Company and report of the Company's independent auditors appear on the pages indicated.

	Page
<a href="#">Report of Independent Registered Public Accounting Firm</a>	30 27
<a href="#">Consolidated Balance Sheets as of December 31, 2022 3 and 2021 2</a>	32 29
<a href="#">Consolidated Statements of Income for each of the years ended December 31, 2022 3, 2021 2, and 2020 21</a>	33 30
<a href="#">Consolidated Statements of Comprehensive (Loss)Income Income for each of the years ended December 31, 2022 3, 2021 2, and 2020 21</a>	34 31
<a href="#">Consolidated Statements of Stockholders' Equity for each of the years ended December 31, 2022 3, 2021 2, and 2020 21</a>	35 32
<a href="#">Consolidated Statements of Cash Flows for each of the years ended December 31, 2022 3, 2021 2, and 2020 21</a>	36 33
<a href="#">Notes to the Consolidated Financial Statements</a>	37 34

### Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Hawthorn Bancshares, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Hawthorn Bancshares, Inc. and subsidiaries (the Company) as of December 31, 2022 December 31, 2023 and 2021, 2022, the related consolidated statements of income, comprehensive income (loss) income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022 December 31, 2023, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 December 31, 2023 and 2021, 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022 December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022 December 31, 2023, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 29, 2023 March 18, 2024 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

#### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### Assessment of the qualitative risk factors related to the allowance for loan credit losses for loans evaluated on a collective basis

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company's allowance for loan credit losses related to loans collectively evaluated for impairment (collective ALL) on a collective basis (the collective ACL) was \$15.3 million \$10.9 million of a total allowance for loan credit losses (ALL) of \$15.6 million \$23.7 million as of December 31, 2022 December 31, 2023. The methodology used to estimate 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 forecast that affect the collective ALL consists of both quantitative and qualitative loss components. The quantitative component collectability of the remaining cash flows over the contractual term of the loans. The allowance for credit losses on loans is measured on a collective ALL estimates loss rates developed using internal (pool) basis where loans are aggregated into pools based on similar risk characteristics. The collective ACL is calculated as the difference between the amortized cost basis and the amount expected to be collected on the instrument. For loans evaluated for credit losses on a collective basis, average historical loan loss experience by loan type over a defined look-back period. The loss rates are multiplied calculated for each pool using relevant peer historical net charge-offs (combined charge-offs and recoveries by loss emergence periods (LEP) which represent the estimated time period between a borrower first experiencing financial difficulty observable historical reporting period) and the recognition Company's outstanding loan balances during a lookback period. The calculated average net charge-off rate is then adjusted for current conditions and reasonable and supportable forecast. These adjustments increase or decrease the average historical loss rate to reflect expectations of future losses given a single path economic forecast of a loss. single macroeconomic variable, which is the civilian unemployment rate. The qualitative component adjustments are based on results from various regression models projecting the impact of the collective ALL uses 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. Additionally, the allowance for credit losses considers other qualitative risk factors to adjust estimates of losses based on the most recent information available and to address other limitations not included in the quantitative component. historical loss rates or macroeconomic forecast such as changes in portfolio composition, underwriting practices, or significant unique events or conditions.

We identified the assessment of the qualitative risk factors related to the December 31, 2023, collective ALL ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment of the qualitative risk factors related to the collective ALL because of significant measurement uncertainty. Specifically, this assessment encompassed the evaluation of the ALL methodology conceptual soundness of the lifetime expected loss model used to estimate the collective ACL, including the following key methods and assumptions (1) selection of the macroeconomic variable for use in the reasonable and supportable forecast, (2) prepayment and curtailment rates, and (3) loss given default (LGD) and probability of default (PD), as well as the qualitative risk factors related to the collective ALL, including the conceptual soundness and performance of the qualitative framework. The assessment also included the evaluation of qualitative risk factors and the related assumptions. These qualitative risk factors factor framework, and related assumptions are sensitive qualitative adjustments for current economic conditions and other external factors. In addition, auditor judgment was required to variation, such that minor changes in evaluate the assumption can cause significant changes in the estimate, sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this the critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the qualitative risk factors related to the collective ALL ACL estimate, including controls related to the:

- over the (1) development and approval of the collective ALL ACL methodology.
- identification and determination (2) validation of the assumptions used in the qualitative framework

• collective ACL methodology and model, (3) continued use and appropriateness of changes made to the collective ACL methodology and model, (4) identification and determination of the key methods and assumptions used to estimate the collective ACL, (5) development of qualitative framework

• adjustments, and (6) analysis of the ALL collective ACL results, trends, and ratios.

We evaluated the Company's process to develop the qualitative risk factors related to the collective ALL ACL estimate by testing certain sources of data, factors, methods, and assumptions, and considered the relevance and reliability of such data, factors, methods, and assumptions. We analyzed trends in evaluated whether the qualitative risk factors related to historical losses are representative of the collective ALL for consistency with trends in loan portfolio growth (attrition) and credit performance. In addition, we characterized of the current portfolio. We involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating Evaluating the Company's collective ALL ACL methodology for compliance with U.S. generally accepted accounting principles.
- evaluating judgments made Assessing the collective ACL methodology and model for conceptual soundness by inspecting the Company relative methodology and model documentation to determine whether the assessment methodology and model are suitable for intended use
- Evaluating the appropriateness of the qualitative framework PD, LGD, prepayment rate and curtailment rate assumptions by comparing them to relevant Company-specific metrics and trends, and the applicable industry and regulatory practices
- evaluating Assessing the qualitative framework selection of the macroeconomic variable for use in the reasonable and supportable forecast by comparing it to the Company's business environment and relevant industry practices
- Evaluating the methodology used to develop the qualitative risk factors and the effect of those factors on the collective ALL ACL compared with changes in internal and external conditions relevant credit risk factors and consistency with credit trends to the entity and identified limitations of the underlying quantitative models.

We assessed the sufficiency of the audit evidence obtained related to the Company's collective ACL by evaluating the cumulative results of the audit procedures, qualitative aspects of the Company's accounting practices, and potential bias in the accounting estimates.

/s/ KPMG LLP

We have served as the Company's auditor since 1993.

St. Louis, Missouri  
March 29, 2023

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

(In thousands, except per share data)	December 31,	
	2023	2022
<b>ASSETS</b>		
Cash and due from banks	15,675	\$ 18,661
Federal funds sold	—	46
Other interest-bearing deposits	77,775	65,013
Cash and cash equivalents	93,450	83,720
Certificates of deposit in other banks	—	2,955
Available-for-sale debt securities, at fair value	188,742	250,747
Other investments	6,300	6,353
<b>Total investment securities</b>	<b>195,042</b>	<b>257,100</b>
Loans held for investment	1,539,147	1,521,252
Allowance for credit losses (1)	(23,744)	(15,588)
<b>Net loans</b>	<b>1,515,403</b>	<b>1,505,664</b>
Loans held for sale, at lower of cost or fair value	3,884	591
Premises and equipment - net	32,047	32,856
Mortgage servicing rights, at fair value	1,738	2,899
Other real estate owned - net	1,744	8,795
Accrued interest receivable	8,661	7,953
Cash surrender value - life insurance	2,624	2,567
Other assets (1)	20,757	18,440
<b>Total assets</b>	<b>\$ 1,875,350</b>	<b>\$ 1,923,540</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Non-interest-bearing demand	\$ 402,241	\$ 453,443
Savings, interest checking and money market	846,452	923,602
Time deposits \$250,000 and over	108,147	94,859

Other time deposits	214,004	160,175
<b>Total deposits</b>	<b>1,570,844</b>	<b>1,632,079</b>
Federal funds purchased and securities sold under agreements to repurchase	—	5,187
Federal Home Loan Bank advances and other borrowings	107,000	98,000
Subordinated notes	49,486	49,486
Operating lease liabilities	1,213	1,533
Accrued interest payable	1,772	902
Liability for unfunded commitments (1)	947	—
Other liabilities	8,003	8,942
<b>Total liabilities</b>	<b>1,739,265</b>	<b>1,796,129</b>
Stockholders' equity:		
Common stock, \$1 par value, authorized 15,000,000 shares; issued 7,554,893 and 7,284,151 shares, respectively	7,555	7,284
Surplus	76,818	71,042
Retained earnings	76,464	91,789
Accumulated other comprehensive loss, net of tax	(13,762)	(31,714)
Treasury stock; 515,570 shares at cost	(10,990)	(10,990)
<b>Total stockholders' equity</b>	<b>136,085</b>	<b>127,411</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,875,350</b>	<b>\$ 1,923,540</b>

	<b>December 31,</b>	
(In thousands, except per share data)	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 18,661	\$ 17,287
Federal funds sold	46	7,122
Other interest-bearing deposits	65,013	135,500
Cash and cash equivalents	83,720	159,909
Certificates of deposit in other banks	2,955	5,193
Available-for-sale debt securities, at fair value	250,747	310,870
Other investments	6,353	5,408
<b>Total investment securities</b>	<b>257,100</b>	<b>316,278</b>
Loans held for investment	1,521,252	1,302,133
Allowance for loan losses	(15,588)	(16,903)
<b>Net loans</b>	<b>1,505,664</b>	<b>1,285,230</b>
Loans held for sale, at lower of cost or fair value	591	2,249
Premises and equipment - net	32,856	32,719
Mortgage servicing rights, at fair value	2,899	2,659
Other real estate owned - net	8,795	10,525
Accrued interest receivable	7,953	6,621
Cash surrender value - life insurance	2,567	2,509
Other assets	18,440	7,658
<b>Total assets</b>	<b>\$ 1,923,540</b>	<b>\$ 1,831,550</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Non-interest-bearing demand	\$ 453,443	\$ 453,066
Savings, interest checking and money market	923,602	818,358
Time deposits \$250,000 and over	94,859	69,075
Other time deposits	160,175	176,321
<b>Total deposits</b>	<b>1,632,079</b>	<b>1,516,820</b>
Federal funds purchased and securities sold under agreements to repurchase	5,187	23,829
Federal Home Loan Bank advances and other borrowings	98,000	77,418
Subordinated notes	49,486	49,486
Operating lease liabilities	1,533	1,837
Accrued interest payable	902	282
Other liabilities	8,942	12,922

<b>Total liabilities</b>		1,796,129	1,682,594
Stockholders' equity:			
Common stock, \$1 par value, authorized 15,000,000 shares; issued 7,284,151 and 7,023,821 shares, respectively		7,284	7,024
Surplus		71,042	64,437
Retained earnings		91,789	82,300
Accumulated other comprehensive (loss) income, net of tax		(31,714)	3,293
Treasury stock; 515,570, and 406,846 shares, at cost, respectively		(10,990)	(8,098)
<b>Total stockholders' equity</b>		127,411	148,956
<b>Total liabilities and stockholders' equity</b>	\$	1,923,540	\$ 1,831,550

(1) December 31, 2023 amounts include the impacts of the January 1, 2023 adoption of ASU 2016-13. See Note 2 for details.

See accompanying notes to the consolidated financial statements.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

##### Consolidated Statements of Income

		Years Ended December 31,						
		Years Ended December 31,					Years Ended December 31,	
(In thousands, except per share amounts)	(In thousands, except per share amounts)	2022	2021	2020	(In thousands, except per share amounts)	2023	2022	2021
<b>INTEREST</b>	<b>INTEREST</b>							
<b>INCOME</b>	<b>INCOME</b>							
Interest and fees on loans	Interest and fees on loans	\$62,888	\$59,248	\$58,129				
Interest and fees on loans	Interest and fees on loans							
Interest and fees on loans	Interest and fees on loans							
held for sale	held for sale	90	102	120				
Interest on investment securities:	Interest on investment securities:							
Taxable	Taxable							
Taxable	Taxable	3,150	2,798	3,037				
Nontaxable	Nontaxable	2,439	1,660	688				
<b>Federal funds sold</b>	<b>Federal funds sold</b>							
Other	Other							
Other interest-bearing deposits, and certificates of deposit in other banks	Other interest-bearing deposits, and certificates of deposit in other banks							
Dividends on other investments	Dividends on other investments							
<b>Total interest income</b>	<b>Total interest income</b>	69,256	64,454	62,985				
<b>INTEREST EXPENSE</b>	<b>INTEREST EXPENSE</b>							
Interest on deposits:	Interest on deposits:							
Interest on deposits:	Interest on deposits:							
Interest on deposits:	Interest on deposits:							

Savings, interest checking and money market				
Savings, interest checking and money market				
Savings, interest checking and money market				
Time deposit accounts \$250,000 and over	Time deposit accounts \$250,000 and over	5,009	1,113	1,858
Time deposits	Time deposits	1,059	575	1,351
<b>Total interest expense on deposits</b>	<b>Total interest expense on deposits</b>	<b>7,102</b>	<b>3,134</b>	<b>5,850</b>
Interest on federal funds purchased and securities sold under agreements to repurchase	Interest on federal funds purchased and securities sold under agreements to repurchase	51	87	146
Interest on federal funds purchased and securities sold under agreements to repurchase	Interest on federal funds purchased and securities sold under agreements to repurchase			
Interest on Federal Home Loan Bank advances	Interest on Federal Home Loan Bank advances	1,268	1,461	2,199
Interest on subordinated notes	Interest on subordinated notes	2,072	1,227	1,527
<b>Total interest expense on borrowings</b>	<b>Total interest expense on borrowings</b>	<b>3,391</b>	<b>2,775</b>	<b>3,872</b>
<b>Total interest expense</b>	<b>Total interest expense</b>	<b>10,493</b>	<b>5,909</b>	<b>9,722</b>
<b>Net interest income</b>	<b>Net interest income</b>			
income	income	58,763	58,545	53,263
(Release of) provision for loan losses	(Release of) provision for loan losses	(900)	(1,700)	5,800
<b>Net interest income after (release of) provision for loan losses</b>	<b>Net interest income after (release of) provision for loan losses</b>	<b>59,663</b>	<b>60,245</b>	<b>47,463</b>

Provision for (release of) credit losses on loans and unfunded commitments (1)				
<b>Net interest income after provision for (release of) credit losses on loans and unfunded commitments</b>				
<b>NON- INTEREST INCOME</b>	<b>NON- INTEREST INCOME</b>			
Service charges and other fees				
Service charges and other fees				
Service charges and other fees				
Service charges and other fees				
Bank card income and fees	Bank card income and fees	3,002	3,094	2,955
Bank card income and fees	Bank card income and fees	4,083	3,957	3,201
Trust department income	Trust department income	1,184	1,324	1,185
Real estate servicing fees, net	Real estate servicing fees, net	1,004	580	(49)
Gain on sale of mortgage loans, net	Gain on sale of mortgage loans, net	2,661	7,165	7,109
(Losses) gains on other real estate owned, net				
Other	Other	2,044	666	572
<b>Total non- interest income</b>	<b>Total non- interest income</b>	<b>13,978</b>	<b>16,786</b>	<b>14,973</b>
Investment securities (losses) gains, net	Investment securities (losses) gains, net	(14)	149	61
<b>NON- INTEREST EXPENSE</b>	<b>NON- INTEREST EXPENSE</b>			
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits				

Salaries and employee benefits	Salaries and employee benefits	27,058	27,657	26,151
Occupancy expense, net	Occupancy expense, net	3,175	3,075	3,069
Furniture and equipment expense	Furniture and equipment expense	3,054	3,067	3,043
Processing, network, and bank card expense	Processing, network, and bank card expense	4,788	4,751	3,864
Legal, examination, and professional fees	Legal, examination, and professional fees	1,630	3,024	1,458
Advertising and promotion	Advertising and promotion	1,494	1,227	1,095
Postage, printing, and supplies	Postage, printing, and supplies	878	838	897
Loan expense	Loan expense	576	823	1,137
Other	Other	5,885	4,504	4,307
<b>Total non-interest expense</b>	<b>Total non-interest expense</b>	<b>48,538</b>	<b>48,966</b>	<b>45,021</b>
Income before income taxes	Income before income taxes	25,089	28,214	17,476
<b>Income tax expense</b>	<b>Income tax expense</b>	<b>4,338</b>	<b>5,697</b>	<b>3,183</b>
Income before income taxes (benefit)	Income before income taxes (benefit)			
Income tax expense (benefit)	Income tax expense (benefit)			
<b>Net income</b>	<b>Net income</b>	<b>\$20,751</b>	<b>\$22,517</b>	<b>\$14,293</b>
Basic earnings per share	Basic earnings per share	\$ 3.06	\$ 3.27	\$ 2.04
Diluted earnings per share	Diluted earnings per share	\$ 3.06	\$ 3.27	\$ 2.04

(1) Prior to adoption of ASU No 2016-13 on January 1, 2023, credit losses were estimated using the incurred loss approach.

See accompanying notes to the consolidated financial statements.

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

	Years Ended December 31,		
(In thousands)	2022	2021	2020
Net income	\$ 20,751	\$ 22,517	\$ 14,293
Other comprehensive (loss) income, net of tax			
Investment securities available-for-sale:			

Unrealized (losses) gains on investment securities available-for-sale, net of tax	(37,019)	(2,895)	3,408
Adjustment for (gains) on sale of investment securities, net of tax	—	(96)	(32)
Defined benefit pension plans:			
Net gains arising during the year, net of tax	2,012	4,466	1,738
Amortization of prior service cost included in net periodic pension cost, net of tax	—	290	169
Total other comprehensive (loss) income	(35,007)	1,765	5,283
Total comprehensive (loss) income	\$ (14,256)	\$ 24,282	\$ 19,576

	Years Ended December 31,		
(In thousands)	2023	2022	2021
Net income	\$ 956	\$ 20,751	\$ 22,517
Other comprehensive income (loss), net of tax			
Investment securities available-for-sale:			
Unrealized gains (losses) on investment securities available-for-sale, net of tax	6,048	(37,019)	(2,895)
Adjustment for losses (gains) on sale of investment securities, net of tax	9,148	—	(96)
Defined benefit pension plans:			
Net gains arising during the year, net of tax	3,262	2,012	4,466
Amortization of net (gains) losses cost included in net periodic pension cost, net of tax	(506)	—	290
Total other comprehensive income (loss)	17,952	(35,007)	1,765
Total comprehensive income (loss)	\$ 18,908	\$ (14,256)	\$ 24,282

See accompanying notes to the consolidated financial statements.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

#### Consolidated Statements of Stockholders' Equity

(In thousands)	(In thousands)	Accumulated					Common (In thousands)	Retained Earnings (In thousands)	Accumulated Other Comprehensive Income (Loss) (In thousands)	Common Stock holders' Equity (In thousands)
		Common Stock	Retained Surplus	Earnings	Comprehensive Income (Loss)	Treasury Stock				
<b>Balance, December 31, 2019</b>	\$ 6,520	\$ 55,727	\$ 61,590	\$ (3,755)	\$ (5,044)	\$ 115,038				
Net income	—	—	14,293	—	—	14,293				
Other comprehensive income	—	—	—	5,283	—	5,283				
Purchase of treasury stock	—	—	—	—	(906)	(906)				
Stock dividend (\$0.04 per share)	249	3,580	(3,829)	—	—	—				
Cash dividends declared, common stock (\$0.49 per share)	—	—	(3,119)	—	—	(3,119)				
<b>Balance, December 31, 2020</b>	<b>\$ 6,769</b>	<b>\$ 59,307</b>	<b>\$ 68,935</b>	<b>\$ 1,528</b>	<b>\$ (5,950)</b>	<b>\$ 130,589</b>				
Net income	Net income	—	—	22,517	—	—	22,517			
Other comprehensive income	Other comprehensive income	—	—	—	1,765	—	1,765			
Purchase of treasury stock	Purchase of treasury stock	—	—	—	—	(2,148)	(2,148)			
Stock dividend (\$0.04 per share)	Stock dividend (\$0.04 per share)	255	5,130	(5,385)	—	—	—			
Cash dividends declared, common stock (\$0.58 per share)	Cash dividends declared, common stock (\$0.58 per share)	—	—	(3,767)	—	—	(3,767)			

Balance, December 31, 2021	Balance, December 31, 2021	\$ 7,024	\$ 64,437	\$ 82,300	\$ 3,293	\$ (8,098)	\$ 148,956
Net income	Net income	—	—	20,751	—	—	20,751
Other	Other						
comprehensive	comprehensive						
loss	loss	—	—	—	(35,007)	—	(35,007)
Purchase of	Purchase of						
treasury stock	treasury stock	—	—	—	—	(2,892)	(2,892)
Stock dividend	Stock dividend						
(\$0.04 per	(\$0.04 per						
share)	share)	260	6,605	(6,865)	—	—	—
Cash dividends	Cash dividends						
declared,	declared,						
common stock	common stock						
(\$0.66 per	(\$0.66 per						
share)	share)	—	—	(4,397)	—	—	(4,397)
<b>Balance, December 31, 2022</b>	<b>Balance, December 31, 2022</b>	<b>\$ 7,284</b>	<b>\$ 71,042</b>	<b>\$ 91,789</b>	<b>\$ (31,714)</b>	<b>\$ (10,990)</b>	<b>\$ 127,411</b>

Adoption of  
ASU 2016-13

Balance,  
January 01,  
2023

Net income  
Other  
comprehensive  
income

Share-based compensation  
expense

Share-based compensation  
expense

Share-based compensation  
expense

Stock dividend  
(\$0.04 per  
share)

Cash dividends  
declared,  
common stock  
(\$0.68 per  
share)

**Balance,  
December 31,  
2023**

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,				Year Ended December 31,			
	Year Ended December 31,				Year Ended December 31,			
(In thousands)	(In thousands)	2022	2021	2020	(In thousands)	2023	2022	2021
<b>Cash flows</b>								
<b>Cash flows</b>	<b>from</b>							
<b>from operating</b>	<b>operating</b>							
<b>activities:</b>	<b>activities:</b>							
Net income	Net income	\$ 20,751	\$ 22,517	\$ 14,293				
Net income								
Net income								

Adjustments to reconcile net income to net cash from operating activities:	Adjustments to reconcile net income to net cash from operating activities:			
(Release of ) provision for loan losses		(900)	(1,700)	5,800
Provision for (release of) for credit losses on loans and unfunded commitments				
Provision for (release of) for credit losses on loans and unfunded commitments				
Provision for (release of) for credit losses on loans and unfunded commitments				
Depreciation expense	Depreciation expense	2,141	2,283	2,265
	Net amortization of investment securities, premiums, and discounts			
Net amortization of investment securities, premiums, and discounts	discounts	1,358	1,743	1,493
Change in fair value of mortgage servicing rights	Change in fair value of mortgage servicing rights	(176)	186	903
Investment securities losses	Investment securities losses			
(gains), net	(gains), net	14	(149)	(61)
(Gains) losses on sales and dispositions of premises and equipment	(Gains) losses on sales and dispositions of premises and equipment	(160)	29	(104)
Gain on sales and dispositions of other real estate		(255)	(27)	(224)
(Release of) provision for other real estate owned		(29)	965	5
Gain on sales and dispositions of other real estate and repossessed assets				

Provision for (release of) valuation allowance for other real estate owned Share-based compensation expense				
(Increase) decrease in accrued interest receivable	(Increase) decrease in accrued interest receivable	(1,332)	19	(159)
Increase in cash surrender value - life insurance	Increase in cash surrender value - life insurance	(58)	(58)	(53)
(Increase) decrease in other assets		(1,413)	(2,222)	9
Increase in other assets				
Decrease in operating lease liabilities	Decrease in operating lease liabilities	(304)	(300)	(87)
Increase (decrease) in accrued interest payable	Increase (decrease) in accrued interest payable	620	(555)	(299)
(Decrease) increase in other liabilities		(1,522)	4,981	1,907
Increase (decrease) in other liabilities				
Origination of mortgage loans held for sale	Origination of mortgage loans held for sale	(83,012)	(196,924)	(193,488)
Proceeds from the sale of mortgage loans held for sale	Proceeds from the sale of mortgage loans held for sale	87,217	206,589	195,926
Gain on sale of mortgage loans, net	Gain on sale of mortgage loans, net	(2,661)	(7,165)	(7,109)
<b>Net cash provided by operating activities</b>	<b>Net cash provided by operating activities</b>	<b>20,279</b>	<b>30,212</b>	<b>21,017</b>
<b>Net cash provided by operating activities</b>				

Net cash provided by operating activities				
Cash flows from investing activities:				
Purchase of certificates of deposit in other banks				
Purchase of certificates of deposit in other banks				
Purchase of certificates of deposit in other banks	Purchase of certificates of deposit in other banks	(735)	(245)	(980)
Proceeds from maturities of certificates of deposit in other banks	Proceeds from maturities of certificates of deposit in other banks	2,966	4,436	2,466
Net increase in loans	Net increase in loans	(219,646)	(15,449)	(119,273)
Purchase of available-for-sale debt securities	Purchase of available-for-sale debt securities	(21,282)	(178,576)	(100,206)
Proceeds from maturities of available-for-sale debt securities	Proceeds from maturities of available-for-sale debt securities	30,899	38,386	52,962
Proceeds from calls of available-for-sale debt securities	Proceeds from calls of available-for-sale debt securities	2,295	16,515	21,285
Proceeds from sales of available-for-sale debt securities	Proceeds from sales of available-for-sale debt securities	—	5,420	5,845
Purchases of Federal Home Loan Bank stock	Purchases of Federal Home Loan Bank stock	(13,334)	(362)	(2,018)
Proceeds from sales of Federal Home Loan Bank stock	Proceeds from sales of Federal Home Loan Bank stock	12,375	1,334	1,492
Purchases of FHLB stock	Purchases of FHLB stock			
Proceeds from sales of FHLB stock	Proceeds from sales of FHLB stock			
Purchases of premises and equipment	Purchases of premises and equipment	(2,566)	(591)	(1,828)
Proceeds from sales of premises and equipment	Proceeds from sales of premises and equipment	317	46	178

Proceeds from sales of other real estate and reposessed assets	Proceeds from sales of other real estate and reposessed assets	2,176	1,551	516
<b>Net cash used in investing activities</b>				
		(206,535)	(127,535)	(139,561)
Proceeds from sales of other real estate and reposessed assets				
Proceeds from sales of other real estate and reposessed assets				
<b>Net cash provided by (used in) investing activities</b>				
<b>Cash flows from financing activities:</b>				
Net increase in demand deposits	377	70,574	121,325	
Net increase in interest-bearing transaction accounts	105,244	94,550	109,477	
Net (decrease) increase in demand deposits				
Net (decrease) increase in demand deposits				
Net (decrease) increase in demand deposits				
Net (decrease) increase in interest-bearing transaction accounts				
Net increase (decrease) in time deposits	9,638	(31,910)	(33,717)	
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(18,642)	(21,325)	17,882	
Net decrease in federal funds purchased and securities sold under agreements to repurchase				
Repayment of FHLB advances and other borrowings	(315,399)	(29,256)	(59,245)	
FHLB advances	335,981	—	69,000	

Purchase of treasury stock	Purchase of treasury stock	(2,892)	(2,148)	(906)
	Cash dividends paid			
paid - common stock	- common stock	(4,240)	(3,616)	(3,030)
<b>Net cash provided by financing activities</b>		<b>110,067</b>	<b>76,869</b>	<b>220,786</b>
Net (decrease) increase in cash and cash equivalents		(76,189)	(20,454)	102,242
<b>Net cash (used in) provided by financing activities</b>				
Net increase (decrease) in cash and cash equivalents				
Cash and cash equivalents, beginning of year	Cash and cash equivalents, beginning of year	159,909	180,363	78,121
<b>Cash and cash equivalents, end of year</b>	<b>Cash and cash equivalents, end of year</b>	<b>\$ 83,720</b>	<b>\$ 159,909</b>	<b>\$ 180,363</b>

See accompanying notes to the consolidated financial statements.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

#### Consolidated Statements of Cash Flows *continued*

Year Ended December 31,					Year Ended December 31,			
(In thousands)	(In thousands)	2022	2021	2020	(In thousands)	2023	2022	2021
Supplemental disclosures of cash flow information:	Supplemental disclosures of cash flow information:							
Cash paid during the year for:	Cash paid during the year for:							
Interest	Interest							
Interest	Interest	\$9,919	\$6,464	\$10,023				
Income taxes	Income taxes	\$4,307	\$4,729	\$ 2,305				
Noncash investing and financing activities:	Noncash investing and financing activities:							

Other real estate and assets acquired in settlement of loans	Other real estate and assets acquired in settlement of loans	\$ 162	\$ 723	\$ 73
Right of use assets obtained in exchange for new operating lease liabilities		\$ —	\$ —	\$ 169
Other real estate and repossession assets acquired in settlement of loans				
Other real estate and repossession assets acquired in settlement of loans				
Stock dividends	Stock dividends	\$6,865	\$5,385	\$ 3,829
Stock dividends				
Stock dividends				

See accompanying notes to the consolidated financial statements.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

#### **(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, St. Louis, and the greater Kansas City metropolitan area. The Company is subject to competition from other financial and nonfinancial institutions providing 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 consolidated financial statements of the Company have been prepared in conformity with United States ("U.S.") generally accepted accounting principles ("U.S. GAAP"). 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 **loan 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 what is disclosed in the *Pending Litigation* section below.

The significant accounting policies used by the Company in the preparation of the consolidated financial statements are summarized below:

##### **Principles of Consolidation**

In December of 2008, the Company formed Hawthorn Real Estate, LLC, (the "Real Estate Company"), a wholly owned subsidiary of the Company. In December of 2017, the Company formed Hawthorn Risk Management, Inc., (the "Insurance Captive"), a wholly owned subsidiary of the Company. The consolidated financial statements include the accounts of the Company, the Bank, the Real Estate Company, and the Insurance Captive. **The Insurance Captive was dissolved December 1, 2023.** All significant intercompany accounts and transactions have been eliminated in consolidation.

##### **Loans**

Loans that the Company has the intent and ability to hold for the foreseeable future or to maturity are held for investment at their stated unpaid principal balance amount less unearned income and the allowance for **loan credit** losses. Income on loans is accrued on a simple-interest basis. Loan origination fees and certain direct costs are deferred and recognized over the life of the loan as an adjustment to yield.

##### **Loans Held for Sale**

Loans originated, primarily one-to-four family residential mortgage. The Company designates certain long-term fixed rate personal real estate loans with the intent to be sold in the secondary market are classified as held for sale. In the fourth quarter of 2021, the Company elected. These loans are initially measured at fair value under the fair value option for all newly originated long-term personal real estate election with subsequent changes in fair value recognized in mortgage banking income. The loans held for sale. Adjusted cost reflects the funded loan amount are primarily sold to Freddie Mac, Fannie Mae, PennyMac, and any loan origination costs and fees. various other secondary market investors. The Company sells loans with servicing retained or released depending on pricing and market conditions. Mortgage loans held for sale were \$3.9 million at December 31, 2023 compared to \$0.6 million at December 31, 2022 compared to \$2.2 million at December 31, 2021.

## HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements December 31, 2022, 2021, and 2020

#### **Impaired Loans**

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. Included in impaired loans are all non-accrual loans and loans whose terms have been modified in a troubled debt restructuring. Impaired loans are individually evaluated for impairment based on fair values of the underlying collateral, obtained through independent appraisals or internal valuations for a collateral dependent loan or by discounting the total expected future cash flows.

#### **Non-Accrual Loans**

Loans are placed on non-accrual status when management believes that the borrower's financial condition, after consideration of business conditions and collection efforts, is such that collection of interest is doubtful. Loans that are contractually 90 days past due as to principal and/or interest payments are generally placed on non-accrual, unless they are both well-secured and in the process of collection. Real estate loans secured by one-to-four family residential properties are

## HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements December 31, 2023, 2022, and 2021

exempt from these non-accrual guidelines. These loans are placed on non-accrual status after they become 120 days past due. Subsequent interest payments received on such loans are applied to principal if doubt exists as to the collectability of such principal; otherwise, such receipts are recorded as interest income on a cash basis. A loan remains on non-accrual status until the loan is current as to payment of both principal and interest and/or the borrower demonstrates the ability to pay and remain current.

#### **Restructured Loans Allowance for Credit Losses**

A loan The allowance for credit losses is accounted for as measured using a troubled debt restructuring ("TDR") if the Company, for economic or legal reasons related to the borrowers' financial difficulties, grants a concession to the borrower lifetime expected loss model that it would not otherwise consider. A TDR typically involves (1) modification of terms such as a reduction of the stated interest rate, loan principal, accrued interest, or an extended maturity date, (2) a loan renewal at a stated interest rate lower than the current market rate for a new loan incorporates relevant information about past events, including historical credit loss experience on loans with similar risk or (3) debt characteristics, current conditions, and reasonable and supportable forecasts that was not reaffirmed in bankruptcy. Non-performing TDRs are returned to performing status once affect the borrower demonstrates the ability to pay under the terms collectability of the restructured note through remaining cash flows over the contractual term of the loans. The allowance for credit losses is measured on a sustained period of repayment performance, which 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 generally six months. The Company includes all performing and non-performing TDRs 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 impaired allowance and non-performing asset totals. The Company measures do not exceed the impairment loss aggregate of a TDR in the same manner as described below. TDRs that amounts previously charged-off and expected to be charged-off. Loans are performing under their contractual terms continue to accrue interest, which is recognized in current earnings.

#### **Allowance for Loan Losses**

Management has identified the accounting policy related to 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 as critical 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 understanding loans over the remaining contractual

lives, adjusted for expected prepayments and curtailments. The contractual term excludes expected extensions, renewals and modifications. Credit cards and certain similar consumer lines of the Company's results of operations, since the application of this policy requires significant management assumptions credit do not have stated maturities and estimates that could result in materially different amounts therefore, for these loan classes, remaining contractual lives are determined by estimating future cash flows expected to be reported if conditions or underlying circumstances were received from customers until payments have been fully allocated to change. The fair value outstanding balances. Agriculture loans also use the remaining life methodology for estimating life of impaired loans deemed collateral-dependent, for purposes of the measurement of the impairment loss, can be subject to changing market conditions, supply and demand, condition of the collateral and other factors over time. Such volatility can have an impact on the financial performance of the Company.

Loans, or portions of loans, are charged off to the extent deemed uncollectible or a loss is confirmed. When loans become 90 days past due, they are generally placed on non-accrual status or charged off unless extenuating circumstances justify leaving the loan on accrual basis. When loans reach 120 days past due, and there is little likelihood of repayment, the uncollectible portion of the loans are charged off. Loan charge-offs reduce losses. Additionally, the allowance for loan credit losses considers qualitative or environmental factors, such as: lending policies and recoveries of loans previously charged off are added back to the allowance. 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 considered to be impaired.

The specific reserve component applies to loans evaluated individually for impairment. The net carrying value of impaired loans is generally based on the fair values of collateral obtained through independent appraisals and/or internal evaluations, or by discounting the total expected future cash flows. Once the impairment amount is calculated, a specific reserve allocation is recorded.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020

The incurred loss component of the general reserve, or loans collectively evaluated for impairment, is determined by applying loss rates to pools of loans by loan type. Loans not individually evaluated are aggregated by risk characteristics and reserves are recorded using a consistent methodology that considers historical loan loss experience by loan type. The Company believes that the look-back period beginning January 1, 2012 provides a representative historical loss period in the current procedures; economic environment. These historical loss rates for each risk group are used as the starting point to determine loss rates for measurement purposes. The historical loan loss rates are multiplied by loss emergence periods, which represent the estimated time period between a borrower first experiencing financial difficulty and the recognition of a loss.

The Company's methodology includes qualitative risk factors that allow management to adjust its estimates of losses based on the most recent information available and to address other limitations in the quantitative component that is based on historical loss rates. Such risk factors are generally reviewed and updated quarterly, as appropriate, and are adjusted to reflect changes in national and local economic conditions and developments, conditions; the nature, volume and terms of loans in the portfolio, including changes in volume portfolio; lending staff and severity of management; past due loans, loans; the volume loan review system; collateral values; concentrations of non-accrual loans, 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 volume and severity of adversely classified or graded loans, loan concentrations, assessment of trends associated obligation is unconditionally cancellable by the Company. This allowance is included in collateral values, assessment of changes in other liabilities on the quality consolidated balance sheets with associated expense recognized as a component of the Company's internal loan review department, and changes in provision for credit losses on the consolidated statements of income. The liability for unfunded lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices. 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.

**Certificates of Deposit in other banks**

Certificates of deposit are investments made by the Company with other financial institutions, in amounts less than \$250,000 each in order to qualify for insurance coverage under the Federal Deposit Insurance Corporation ("FDIC"), that are carried at cost which approximates fair values.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

**Investment Securities**

**Available-for-sale Securities**

The largest component of the Company's investment portfolio consists of debt securities which are classified as available-for-sale and are carried at fair value. Changes in fair value, excluding certain losses associated with other-than-temporary impairment, are reported in other comprehensive income, net of taxes, a component of stockholders' equity. Securities are periodically evaluated for other-than-temporary impairment in accordance with guidance provided by the Financial Accounting Standards Board ("FASB") under

Accounting Standards Codification ("ASC") Topic 320, *Investments – Debt Securities*. For those securities with other-than-temporary impairment, the entire loss in fair value is required to be recognized in current earnings if the Company intends to sell the securities or believes it more likely than not that it will be required to sell the security before the anticipated recovery. If neither condition is met, but the Company does not expect to recover the amortized cost basis, the Company determines whether a credit loss has occurred, which is then recognized in current earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

Premiums and discounts are amortized using the interest method over the lives of the respective securities, with consideration of historical and estimated prepayment rates for mortgage-backed securities, as an adjustment to yield. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sale are included in earnings based on the specific identification method for determining the cost of securities sold.

#### *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 Federal Home Loan Bank of Des Moines ("FHLB") stock, and Midwest Independent BankersBank ("MIB") stock, that do not have readily determinable fair values, are required for membership in those organizations.

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 assessed for impairment.

## **HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements December 31, 2022, 2021, and 2020**

#### ***Capital Stock of the FHLB***

The Bank, as a member of the Federal Home Loan Bank System administered by the Federal Housing Finance Agency, is required to maintain an investment in the capital stock of the FHLB in an amount equal to **12.6** basis points of the Bank's year-end total assets plus **4.00% 4.50%** of advances from the FHLB to the Bank. These investments are recorded at cost, which represents redemption value.

#### ***Premises and Equipment***

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation applicable to buildings and improvements and furniture and equipment is charged to expense using straight-line and accelerated methods over the estimated useful lives of the assets. Such lives are estimated to be five to 40 years for buildings and improvements and three to 15 years for furniture and equipment. Maintenance and repairs are charged to expense as incurred.

#### ***Derivative Assets and Liabilities***

The Company recognizes derivatives as either assets or liabilities in the balance sheet, and measures those instruments at fair value. Loan commitments related to the origination or acquisition of mortgage loans that will be held for sale are accounted for as derivative instruments. The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). The Company also enters into forward sales commitments for the mortgage loans underlying the rate lock commitments.

## **HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements December 31, 2023, 2022, and 2021**

The Company uses derivative instruments to manage the fair value changes in interest rate lock commitments and loan portfolios which are exposed to interest rate risk. The Company does not use derivative instruments for trading or speculative purposes. Certain derivative financial instruments are generally entered into as economic hedges against changes in the fair value of a recognized asset or liability and are not designated as hedges for accounting purposes. These non-designated derivatives are intended to provide interest rate protection but do not meet hedge accounting treatment. Changes in the fair value of these instruments are recorded in non-interest income and non-interest expense related to the other asset or other liability in the consolidated statements of income. Management has determined these derivatives do not have a material effect on the Company's financial position, results of operations or cash flows.

#### ***Mortgage Servicing Rights***

The Company originates and sells residential mortgage loans in the secondary market and typically retains the right to service the loans sold. Servicing involves the collection of payments from individual borrowers and the distribution of those payments to the investors or master servicer. Upon a sale of mortgage loans for which servicing rights are retained, the retained mortgage servicing rights asset is capitalized at the fair value of future net cash flows expected to be realized for performing servicing activities.

Mortgage servicing rights ("MSRs") are carried at fair value in the consolidated balance sheet with changes in the fair value recognized in earnings. Because most servicing rights do not trade in an active market with readily observable prices, the Company determines the fair value of mortgage servicing rights by estimating the fair value of the future cash flows associated with the mortgage loans being serviced. Key assumptions used in measuring the fair value of mortgage servicing rights include, but are not limited to, prepayment speeds, discount rates, delinquencies, ancillary income, and cost to service. These assumptions are validated on a periodic basis. The fair value is validated on a quarterly basis with an independent third party valuation specialist firm.

In addition to the changes in fair value of the mortgage servicing rights, the Company also records loan servicing fee income as part of real estate servicing fees, net, in the consolidated statements of income. Loan servicing fee income represents revenue earned for servicing mortgage loans. The servicing fees are based on contractual percentage of the outstanding principal balance and recognized as revenue as the related mortgage payments are collected. Corresponding loan servicing costs are charged to expense as incurred.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020**

***Other Real Estate Owned and Repossessed Assets***

Other real estate owned and repossessed assets consist of loan collateral that has been 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. Other real estate owned assets are initially recorded as held for sale at the fair value of the collateral less estimated selling costs. Any adjustment is recorded as a charge-off against the allowance for **loan credit** losses. The Company relies on external appraisals and assessment of property values by internal staff. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgment based on experience and expertise of internal specialists. Subsequent to foreclosure, valuations are updated periodically, and the assets may be written down to reflect a new cost basis. The valuation write-downs are recorded as other non-interest expense. The Company establishes a valuation allowance related to other real estate owned and repossessed assets on an asset-by-asset basis. The valuation allowance is created during the holding period when the fair value less cost to sell is lower than the cost of the asset.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021**

***Pension Plan***

The Company provides a noncontributory defined benefit pension plan for all full-time and eligible employees. The benefits are based on age, years of service and the level of compensation during the respective employee's highest ten years of compensation before retirement. Net periodic costs are recognized as employees render the services necessary to earn the retirement benefits. The Company records annual amounts relating to its pension plan based on calculations that incorporate various actuarial and other assumptions including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. The Company reviews its assumptions on an annual basis and may make modifications to the assumptions based on current rates and trends when it is appropriate to do so. The Company believes that the assumptions utilized in recording its obligations under its plan are reasonable based on its experience and market conditions.

The Company follows authoritative guidance included in the FASB ASC Topic 715, *Compensation – Retirement Plans* under the subtopic *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. ASC Topic 715 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its consolidated balance sheet and to recognize changes in the funded status in the year in which the changes occur through comprehensive income. This guidance also requires an employer to measure the funded status of a plan as of the date of its fiscal year-end, with limited exceptions. Additional disclosures are required to provide users with an understanding of how investment allocation decisions are made, major categories of plan assets, and fair value measurement of plan assets as defined in ASC Topic 820, *Fair Value Measurements and Disclosures*.

***Investments in Historic Tax Credits.***

The Company has a noncontrolling financial investment in a private investment fund and partnership that finances the rehabilitation and re-use of historic buildings. This unconsolidated investment may generate a return through the realization of federal income tax credits, as well as other tax benefits, such as tax deductions from net operating losses of the investments over a period of time. Investments in historic tax credits are accounted for under the equity method of accounting and the Company's recorded investment in these entities is carried in other assets on the Consolidated Balance Sheets with any unfunded commitment recorded in other liabilities. The tax credits and other net tax benefits received are recognized as a component of income tax expense in the Consolidated Statements of Income.

***Income Taxes***

Income taxes are accounted for under the asset/liability method by recognizing the amount of taxes payable or refundable for the current period and deferred tax assets and liabilities for future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income tax assets and liabilities are provided as temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements at the enacted tax rate expected to

be applied in the period the deferred tax item is expected to be realized. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020**

tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years.

A tax position is initially recognized in the financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. Penalties and interest incurred under the applicable tax law are classified as income tax expense. The Company has not recognized any tax liabilities or any interest or penalties in income tax expense related to uncertain tax positions as of **December 31, 2022** **December 31, 2023, 2021, 2022**, and **2020, 2021**.

**Trust Department**

Property held by the Bank in a fiduciary or agency capacity for customers is not included in the accompanying consolidated balance sheets, since such items are not assets of the Company. Trust department income is recognized on the accrual basis.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021**

**Consolidated Statements of Cash Flows**

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of short-term federal funds sold and securities sold or purchased under agreements to resell, overnight **interest-earning** **interest earning** deposits with banks, and cash and due from banks.

**Treasury Stock**

The purchase of the Company's common stock is recorded at cost. Purchases of the stock are made both in the open market and through negotiated private purchases based on market prices. At the date of subsequent reissue, the treasury stock account is reduced by the cost associated with such stock on a first-in-first-out basis. Gains on the sale of treasury stock are credited to additional paid-in-capital. Losses on the sale of treasury stock are charged to additional paid-in-capital to the extent of previous gains, otherwise charged to retained earnings.

**Stock Dividend**

On **July 1, 2022** **July 1, 2023**, the Company paid a special stock dividend of four percent to shareholders of record at the close of business on **June 15, 2022** **June 15, 2023**. For all periods presented, share information, including basic and diluted earnings per share, has been adjusted retroactively to reflect this change.

**CARES Act**

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law, which, in part, established a loan program administered through the U.S. Small Business Administration ("SBA"), referred to as the Paycheck Protection Program ("PPP"). Under the PPP, small businesses, sole proprietorships, independent contractors, non-profit organizations and self-employed individuals could apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The Company is a participating lender in the PPP program. All loans have a 1% interest rate and the Company earns a fee that is based upon a tiered schedule corresponding with the amount of the loan to the borrower, which is deferred and recognized over the life of the loan. Based upon the borrower meeting certain criteria as defined by the CARES Act, the loan may be forgiven by the SBA. The Company reports these loans at their principal amount outstanding, net of unearned income, unamortized deferred loan fee income and loan origination costs. Interest is accrued as earned and loan origination fees and direct costs are deferred and accreted or amortized into interest income, as an adjustment to the yield, over the life of the loan using the level yield method. When a PPP loan is paid off or forgiven by the SBA, the remaining unaccrued or unamortized net origination fees or costs are immediately recognized into income.

**Reclassifications**

Certain prior year information has been reclassified to conform to the **2022** **2023** presentation.

**Recently Adopted Accounting Pronouncements**

**Trouble Debt Restructurings.** On January 1, 2023, the effective date of the guidance, the Company adopted Accounting Standards Update (ASU) 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures", on a prospective basis. ASU 2022-02 eliminated the accounting guidance for troubled debt restructurings (TDRs), while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. For entities that have already adopted ASU 2016-13, the amendments in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Effective January 1, 2023, the Company adopted the amendments within ASU 2022-02, using the prospective transition method. ASU 2022-02 did not have a material impact on the Company's consolidated financial statements.

**ASU 2016-13.** On January 1, 2023, the Company adopted ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which replaces the incurred loss methodology with an expected loss methodology commonly referred to as the current expected credit losses (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. In addition, this standard made changes to the accounting for available-for-sale debt securities, including the requirement for credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities.

The Company adopted this standard using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under the new standard while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. The Company recorded an after-tax decrease to retained earnings of \$5.6 million as of January 1, 2023 for the cumulative effect of adopting this standard.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

The following table illustrates the impact of adoption of ASU 2016-13:

(in thousands)	December 31, 2022	Impact of Adoption	January 1, 2023
<b>Assets:</b>			
Allowance for credit losses on loans	\$ 15,588	\$ 5,793	\$ 21,381
Deferred tax asset	3,267	1,483	4,750
<b>Liabilities:</b>			
Liability for unfunded commitments	—	1,272	1,272
<b>Shareholders' Equity</b>			
Retained Earnings	91,789	(5,581)	86,208

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

**Loans**

A summary of loans, by major class ~~Major classifications~~ within the Company's held for investment loan portfolio at December 31, 2022 December 31, 2023 and ~~2021~~ is 2022 were as follows:

(in thousands)	(in thousands)	2022	2021	(in thousands)	2023	2022
Commercial, financial, and agricultural (a)	\$ 244,549	\$ 217,214				
Commercial, financial, and agricultural						
Real estate construction	Real estate construction					
– residential	– residential	32,095	27,920			
Real estate construction	Real estate construction					
– commercial	commercial	137,235	91,369			

Real estate	Real estate		
mortgage –	mortgage –		
residential	residential	361,025	279,346
Real estate	Real estate		
mortgage –	mortgage –		
commercial	commercial	722,729	663,256
Installment	Installment		
and other	and other		
consumer	consumer	23,619	23,028
<b>Total loans</b>	<b>Total loans</b>		
held for	held for		
investment	investment	\$1,521,252	\$1,302,133

(a) Includes \$0.01 million and \$8.4 million SBA PPP loans, net, respectively.

The Bank grants real estate, commercial, installment, and other consumer loans to customers located within the communities surrounding Jefferson City, Columbia, Clinton, Warsaw, Springfield, St. Louis, 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. Installment and other consumer loans consist primarily of the financing of vehicles. Accrued interest on loans totaled \$7.2 million and \$6.4 million at December 31, 2023 and December 31, 2022, \$681.8 million respectively, and is included in the accrued interest receivable 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 December 31, 2023, \$708.3 million of loans were pledged to the FHLB as collateral for borrowings and letters of credit.

The following is a summary of loans to directors and executive officers or to entities in which such individuals had a beneficial interest of the Company:

(in thousands)

Balance at December 31, 2021		\$ 2,478
New loans		10,729
Amounts collected		(3,792)
Balance at December 31, 2022		\$ 9,415
New loans		4,373
Amounts collected		(4,191)
Balance at December 31, 2023		\$ 9,597

### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

Such loans were made in the normal course of business on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the same time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present unfavorable features.

#### Allowance for Credit Losses

### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

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 Consolidated Financial Statements

December 31, 2022, 2021, net amount expected to be collected on the instrument. Expected recoveries are included in the allowance and 2020 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.

#### Allowance for Loan Credit Losses on Off-Balance-Sheet Credit Exposures

The following table illustrates Company maintains a separate allowance for credit losses for off-balance-sheet credit exposures, including unfunded loan commitments, unless the changes 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 loan credit losses by portfolio segment: on loans, however, the liability for unfunded lending commitments incorporates an assumption for the portion of unfunded commitments that are expected to be funded.

	Commercial, Financial, & Agricultural (in thousands)	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment and other Consumer	Un- allocated	Total
<b>Balance at December 31, 2019</b>	\$ 2,918	\$ 64	\$ 369	\$ 2,118	\$ 6,547	\$ 381	\$ 80	\$ 12,477
<b>Additions:</b>								
Provision for (release of) loan losses	2,241	85	106	568	2,838	35	(73)	5,800
<b>Deductions:</b>								
Loans charged off	207	—	—	52	39	211	—	509
Less recoveries on loans	(169)	(64)	—	(45)	(8)	(59)	—	(345)
<b>Net loans charged off (recoveries)</b>	<b>38</b>	<b>(64)</b>	<b>—</b>	<b>7</b>	<b>31</b>	<b>152</b>	<b>—</b>	<b>164</b>
<b>Balance at December 31, 2020</b>	<b>\$ 5,121</b>	<b>\$ 213</b>	<b>\$ 475</b>	<b>\$ 2,679</b>	<b>\$ 9,354</b>	<b>\$ 264</b>	<b>\$ 7</b>	<b>\$ 18,113</b>
<b>Additions:</b>								
(Release of) provision for loan losses	(2,431)	(89)	(362)	(365)	1,348	145	54	(1,700)
<b>Deductions:</b>								
Loans charged off	194	—	—	22	43	229	—	488
Less recoveries on loans	(221)	(13)	(475)	(190)	(3)	(76)	—	(978)
<b>Net loans charged off (recoveries)</b>	<b>(27)</b>	<b>(13)</b>	<b>(475)</b>	<b>(168)</b>	<b>40</b>	<b>153</b>	<b>—</b>	<b>(490)</b>
<b>Balance at December 31, 2021</b>	<b>\$ 2,717</b>	<b>\$ 137</b>	<b>\$ 588</b>	<b>\$ 2,482</b>	<b>\$ 10,662</b>	<b>\$ 256</b>	<b>\$ 61</b>	<b>\$ 16,903</b>
<b>Additions:</b>								
(Release of) provision for loan losses	97	20	265	802	(2,492)	303	105	(900)
<b>Deductions:</b>								
Loans charged off	135	—	—	—	181	321	—	637
Less recoveries on loans	(56)	—	(22)	(45)	(11)	(88)	—	(222)
<b>Net loans charged off (recoveries)</b>	<b>79</b>	<b>—</b>	<b>(22)</b>	<b>(45)</b>	<b>170</b>	<b>233</b>	<b>—</b>	<b>415</b>
<b>Balance at December 31, 2022</b>	<b>\$ 2,735</b>	<b>\$ 157</b>	<b>\$ 875</b>	<b>\$ 3,329</b>	<b>\$ 8,000</b>	<b>\$ 326</b>	<b>\$ 166</b>	<b>\$ 15,588</b>

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

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

On January 1, 2023, the Company's adoption of the CECL methodology resulted in an increase to the extent deemed uncollectible or a loss is confirmed. Loan charge-offs reduce the allowance for loan credit losses of \$5.8 million and recoveries of loans previously charged off are added back to the allowance. 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 considered to be impaired. These loans are evaluated individually for impairment, and in conjunction with current economic conditions and loss experience, specific reserves are estimated as further discussed below. Loans not individually evaluated are aggregated by risk characteristics and reserves are recorded using a consistent methodology that considers historical loan loss experience by loan type, delinquencies, current economic conditions, loan risk ratings and industry concentration.

These historical loss rates for each risk group are used as the starting point to determine loss rates for measurement purposes. The historical loan loss rates are multiplied by loss emergence periods, which represent the estimated time period between a borrower first experiencing financial difficulty and the recognition of a loss. Management's look-back period began with loss history in the first quarter 2012 as the starting point through the current quarter.

The Company's methodology includes qualitative risk factors that allow management to adjust its estimates of losses based on the most recent information available and to address other limitations in the quantitative component based on historical unfunded commitments totaling \$1.3 million.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

loss rates. Such risk factors are generally reviewed and updated quarterly, as appropriate, and are adjusted to reflect changes in national and local economic conditions and developments. The following table illustrates the nature, volume and terms of loans in the portfolio, including changes in volume and severity of past due loans, the volume of non-

accrual loans, and the volume and severity of adversely classified or graded loans, loan concentrations, assessment of trends in collateral values, assessment of changes in the quality of the Company's internal loan review department, and changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices.

The funding of \$88.4 million and \$47.5 million in SBA PPP loans during 2020 and 2021, respectively, required management to assess the methodology that would be adopted in regard to the allowance for loan credit losses applicable by portfolio segment:

(in thousands)	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
<b>Allowance for Credit Losses on Loans</b>								
Balance at, December 31, 2020	\$ 5,121	\$ 213	\$ 475	\$ 2,679	\$ 9,354	\$ 264	\$ 7	\$ 18,113
Charge-offs	(194)	—	—	(22)	(43)	(229)	—	(488)
Recoveries	221	13	475	190	3	76	—	978
Provision for (release of) credit losses	(2,431)	(89)	(362)	(365)	1,348	145	54	(1,700)
Balance at, December 31, 2021	\$ 2,717	\$ 137	\$ 588	\$ 2,482	\$ 10,662	\$ 256	\$ 61	\$ 16,903
Charge-offs	(135)	—	—	—	(181)	(321)	—	(637)
Recoveries	56	—	22	45	11	88	—	222
Provision for (release of) credit losses	97	20	265	802	(2,492)	303	105	(900)
Balance at, December 31, 2022	\$ 2,735	\$ 157	\$ 875	\$ 3,329	\$ 8,000	\$ 326	\$ 166	\$ 15,588
Adoption of ASU 2016-13 (1)	(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	(161)	—	—	(88)	(32)	(347)	—	(628)
Recoveries	192	—	22	23	4	85	—	326
Provision for (release of) credit losses	1,091	595	(518)	110	952	248	187	2,665
Balance at, December 31, 2023	\$ 3,208	\$ 1,043	\$ 3,273	\$ 5,264	\$ 10,537	\$ 232	\$ 187	\$ 23,744
<b>Liability for Unfunded Commitments</b>								
Balance at, December 31, 2022	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Adoption of ASU 2016-13 (1)	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	93	(68)	(324)	(4)	(40)	—	18	(325)
Balance at, December 31, 2023	\$ 197	\$ 273	\$ 245	\$ 103	\$ 110	\$ 1	\$ 18	\$ 947
Total allowance for credit losses on loans and liability for unfunded commitments	\$ 3,405	\$ 1,316	\$ 3,518	\$ 5,367	\$ 10,647	\$ 233	\$ 205	\$ 24,691

(1) Beginning January 1, 2023, calculation is based on CECL methodology. Prior to these loans. Because January 1, 2023, calculation was based on probable incurred loss methodology.

#### Collateral-Dependent Loans

Collateral-dependent loans are loans for which the SBA PPP loans are repayment is expected to be mostly paid off within a year provided substantially through the operation or sale of the collateral and carry a 100% credit guarantee from the SBA, management determined that 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 loan losses was deemed necessary real estate collateral in industries that are undergoing significant stress, or for these loans. At December 31, 2022 and 2021, the balance of these loans totaled \$0.01 million and \$8.4 million, respectively.

All SBA PPP loans properties that are specialized use or have a 1% interest rate and the Company earns a fee based upon a tiered schedule corresponding with the amount of the loan to the borrower, which is deferred and recognized over the life of the loan. The PPP loan may be forgiven by the SBA if the borrower meets certain criteria as defined by the CARES Act. The Company reports these loans at their principal amount outstanding, net of unearned income, unamortized deferred loan fee income and loan origination costs. Interest is accrued as earned and loan origination fees and direct costs are deferred and accrued or amortized into interest income, as an adjustment to the yield, over the life of the loan using the level yield method. When a PPP loan is paid off or forgiven by the SBA, the remaining unaccrued or unamortized net origination fees or costs are immediately recognized into income.

limited marketability.

HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

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

(in thousands)	Collateral Type		Allowance Allocated
	Real Estate	Other	
<b>December 31, 2023</b>			
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	—	—
<b>Total</b>	<b>\$ 2,847</b>	<b>\$ 2,221</b>	<b>\$ 1,483</b>

**Impaired Loans**

The following impaired loans disclosures were superseded by ASU 2016-13.

The following table illustrates the allowance for loan losses and recorded investment by portfolio segment: segment based on the impairment method:

(in thousands)	Commercial, Financial, and Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment and other Consumer	Un- allocated	Total
<b>December 31, 2022</b>								
<b>Allowance for loan losses:</b>								
Individually evaluated for impairment	\$ 36	\$ —	\$ 11	\$ 148	\$ 62	\$ 1	\$ —	\$ 258
Collectively evaluated for impairment	2,699	157	864	3,181	7,938	325	166	15,330
<b>Total</b>	<b>\$ 2,735</b>	<b>\$ 157</b>	<b>\$ 875</b>	<b>\$ 3,329</b>	<b>\$ 8,000</b>	<b>\$ 326</b>	<b>\$ 166</b>	<b>\$ 15,588</b>
<b>Loans outstanding:</b>								
Individually evaluated for impairment	\$ 295	\$ —	\$ 87	\$ 1,863	\$ 18,110	\$ 6	\$ —	\$ 20,361
Collectively evaluated for impairment	244,254	32,095	137,148	359,162	704,619	23,613	—	1,500,891
<b>Total</b>	<b>\$ 244,549</b>	<b>\$ 32,095</b>	<b>\$ 137,235</b>	<b>\$ 361,025</b>	<b>\$ 722,729</b>	<b>\$ 23,619</b>	<b>\$ —</b>	<b>\$ 1,521,252</b>
<b>December 31, 2021</b>								
<b>Allowance for loan losses:</b>								
Individually evaluated for impairment	\$ 42	\$ —	\$ 13	\$ 166	\$ 2,815	\$ 8	\$ —	\$ 3,044
Collectively evaluated for impairment	2,675	137	575	2,316	7,847	248	61	13,859
<b>Total</b>	<b>\$ 2,717</b>	<b>\$ 137</b>	<b>\$ 588</b>	<b>\$ 2,482</b>	<b>\$ 10,662</b>	<b>\$ 256</b>	<b>\$ 61</b>	<b>\$ 16,903</b>
<b>Loans outstanding:</b>								
Individually evaluated for impairment	\$ 341	\$ —	\$ 105	\$ 2,391	\$ 24,357	\$ 60	\$ —	\$ 27,254
Collectively evaluated for impairment	216,873	27,920	91,264	276,955	638,899	22,968	—	1,274,879
<b>Total</b>	<b>\$ 217,214</b>	<b>\$ 27,920</b>	<b>\$ 91,369</b>	<b>\$ 279,346</b>	<b>\$ 663,256</b>	<b>\$ 23,028</b>	<b>\$ —</b>	<b>\$ 1,302,133</b>

**Impaired Loans**

(in thousands)	Commercial, Financial, and Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment and other Consumer	Un- allocated	Total
<b>December 31, 2022</b>								
<b>Allowance for loan losses:</b>								
Individually evaluated for impairment	\$ 36	\$ —	\$ 11	\$ 148	\$ 62	\$ 1	\$ —	\$ 258
Collectively evaluated for impairment	2,699	157	864	3,181	7,938	325	166	15,330
<b>Total</b>	<b>\$ 2,735</b>	<b>\$ 157</b>	<b>\$ 875</b>	<b>\$ 3,329</b>	<b>\$ 8,000</b>	<b>\$ 326</b>	<b>\$ 166</b>	<b>\$ 15,588</b>
<b>Loans outstanding:</b>								
Individually evaluated for impairment	\$ 295	\$ —	\$ 87	\$ 1,863	\$ 18,110	\$ 6	\$ —	\$ 20,361
Collectively evaluated for impairment	244,254	32,095	137,148	359,162	704,619	23,613	—	1,500,891

<b>Total</b>	\$ 244,549	\$ 32,095	\$ 137,235	\$ 361,025	\$ 722,729	\$ 23,619	\$ —	\$ 1,521,252
--------------	------------	-----------	------------	------------	------------	-----------	------	--------------

Loans evaluated under ASC 310-10-35 include loans which are individually evaluated for impairment. All other loans are collectively evaluated for impairment under ASC 450-20. Impaired loans individually evaluated for impairment totaled \$20.4 million and \$27.3 million at December 31, 2022 and 2021, respectively, and are comprised of loans on non-accrual status and loans which have been classified as troubled debt restructurings ("TDRs") ("TDRs").

The net carrying value of impaired loans is based on the fair values of collateral obtained through independent appraisals, or internal evaluations, or by discounting the total expected future cash flows. At December 31, 2022, \$17.7 million of impaired loans were evaluated based on the fair value less estimated selling costs of the loans' collateral, compared to \$24.2 million at December 31, 2021. Once the impairment amount is calculated, a specific reserve allocation is recorded. At December 31, 2022, \$0.3 million of the Company's allowance for loan losses was allocated to impaired loans totaling \$20.4 million, compared to \$3.0 million of the Company's allowance for loan losses allocated to impaired loans totaling approximately \$27.3 million at December 31, 2021. Management determined that \$17.7 million, or 87%, of total impaired loans required no reserve allocation at December 31, 2022 compared to \$16.6 million, or 61%, at December 31, 2021, primarily due to adequate collateral values, acceptable payment history and adequate cash flow ability.<sup>collateral</sup>.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

The categories of impaired loans at December 31, 2022 and 2021 are as follows:

(in thousands)	2022	2021
Non-accrual loans	\$ 18,700	\$ 25,459
Performing TDRs	1,661	1,795
<b>Total impaired loans</b>	<b>\$ 20,361</b>	<b>\$ 27,254</b>

(in thousands)	2022
Non-accrual loans	\$ 18,700
Performing TDRs	1,661
<b>Total impaired loans</b>	<b>\$ 20,361</b>

The following tables provide additional information about impaired loans at December 31, 2022 and 2021, respectively, segregated between loans for which an allowance has been provided and loans for which no allowance has been provided.

(in thousands)	Recorded Investment	Unpaid Principal Balance	Specific Reserves	Average Recorded Investment
<b>December 31, 2022</b>				
<b>With no related allowance recorded:</b>				
Real estate mortgage – residential	\$ —	\$ —	\$ —	\$ 1
Real estate mortgage – commercial	\$ 17,664	\$ 18,975	\$ —	\$ 16,230
<b>Total</b>	<b>\$ 17,664</b>	<b>\$ 18,975</b>	<b>\$ —</b>	<b>\$ 16,231</b>
<b>With an allowance recorded:</b>				
Commercial, financial and agricultural	\$ 295	\$ 330	\$ 36	\$ 319
Real estate construction – commercial	\$ 87	\$ 127	\$ 11	\$ 93
Real estate mortgage – residential	\$ 1,863	\$ 2,080	\$ 148	\$ 2,189
Real estate mortgage – commercial	\$ 446	\$ 535	\$ 62	\$ 428
Installment and other consumer	\$ 6	\$ 6	\$ 1	\$ 90
<b>Total</b>	<b>\$ 2,697</b>	<b>\$ 3,078</b>	<b>\$ 258</b>	<b>\$ 3,119</b>
<b>Total impaired loans</b>	<b>\$ 20,361</b>	<b>\$ 22,053</b>	<b>\$ 258</b>	<b>\$ 19,350</b>

(in thousands)	Recorded Investment	Unpaid Principal Balance	Specific Reserves
----------------	---------------------	--------------------------	-------------------

December 31, 2022

**With no related allowance recorded:**

Real estate mortgage – commercial	\$	17,664	\$	18,975	\$	—
<b>Total</b>	\$	<b>17,664</b>	\$	<b>18,975</b>	\$	<b>—</b>
<b>With an allowance recorded:</b>						
Commercial, financial and agricultural	\$	295	\$	330	\$	36
Real estate construction – commercial		87		127		11
Real estate mortgage – residential		1,863		2,080		148
Real estate mortgage – commercial		446		535		62
Installment and other consumer		6		6		1
<b>Total</b>	\$	<b>2,697</b>	\$	<b>3,078</b>	\$	<b>258</b>
<b>Total impaired loans</b>	\$	<b>20,361</b>	\$	<b>22,053</b>	\$	<b>258</b>

**Credit Quality**

(in thousands)	Recorded Investment	Unpaid Principal Balance	Specific Reserves
<b>December 31, 2021</b>			
<b>With no related allowance recorded:</b>			
Real estate mortgage – residential	\$ 1,034	\$ 1,152	\$ —
Real estate mortgage – commercial	15,593	16,057	—
<b>Total</b>	\$ 16,627	\$ 17,209	\$ —
<b>With an allowance recorded:</b>			
Commercial, financial and agricultural	\$ 341	\$ 374	\$ 42
Real estate construction – commercial	105	138	13
Real estate mortgage – residential	1,357	1,730	166
Real estate mortgage – commercial	8,764	9,142	2,815
Installment and other consumer	60	61	8
<b>Total</b>	\$ 10,627	\$ 11,445	\$ 3,044
<b>Total impaired loans</b>	\$ 27,254	\$ 28,654	\$ 3,044

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.
- **Substandard** - loans that are inadequately protected by the current net 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.
- **Non-accrual** - loans that are delinquent for 90 days or more and the ultimate collectability of interest or principal is no longer probable. (The majority of the Company's non-accrual loans have a substandard risk grade)
- **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.

In the following tables, consumer loans are generally assigned a risk grade similar to the classifications described above; however, upon reaching 90 days and 120 days past due, they are generally downgraded to non-accrual status, in accordance with the Federal Financial Institutions Examination Counsel's Retail Credit Classification Policy.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

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


(in thousands)	Term Loans										Revolving Loans		
	Amortized Cost Basis by Origination Year and Risk Grades												
						Converted to Term							
						Revolving Loans					Loans Amortized Cost		
	2023	2022	2021	2020	2019	Prior	Amortized Cost Basis		Basis		Total		
<b>December 31, 2023</b>													
<b>Commercial, Financial, &amp; Agricultural</b>													
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				
<b>Total</b>	<b>\$ 40,634</b>	<b>\$ 49,441</b>	<b>\$ 33,180</b>	<b>\$ 31,567</b>	<b>\$ 4,784</b>	<b>\$ 5,304</b>	<b>\$ 59,853</b>	<b>\$ 1,512</b>	<b>\$ 226,275</b>				
<b>Gross YTD charge-offs</b>	—	1	—	—	—	160	—	—	161				
<b>Real Estate Construction - Residential</b>													
Pass	\$ 39,847	\$ 17,259	\$ 634	\$ 175	\$ —	\$ —	\$ —	\$ —	\$ 57,915				
Watch	—	—	—	—	—	—	—	—	—				
Substandard	—	—	—	—	—	—	—	—	—				
Non-accrual loans	432	—	—	—	—	—	—	—	432				
<b>Total</b>	<b>\$ 40,279</b>	<b>\$ 17,259</b>	<b>\$ 634</b>	<b>\$ 175</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 58,347</b>				
<b>Gross YTD charge-offs</b>	—	—	—	—	—	—	—	—	—				
<b>Real Estate Construction - Commercial</b>													
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				
<b>Total</b>	<b>\$ 50,685</b>	<b>\$ 53,075</b>	<b>\$ 24,371</b>	<b>\$ 1,040</b>	<b>\$ 31</b>	<b>\$ 804</b>	<b>\$ 290</b>	<b>\$ —</b>	<b>\$ 130,296</b>				
<b>Gross YTD charge-offs</b>	—	—	—	—	—	—	—	—	—				
<b>Real Estate Mortgage - Residential</b>													
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				
<b>Total</b>	<b>\$ 65,667</b>	<b>\$ 121,704</b>	<b>\$ 63,502</b>	<b>\$ 48,441</b>	<b>\$ 7,313</b>	<b>\$ 20,875</b>	<b>\$ 44,687</b>	<b>\$ 202</b>	<b>\$ 372,391</b>				
<b>Gross YTD charge-offs</b>	—	—	—	75	—	—	13	—	88				
<b>Real Estate Mortgage - Commercial</b>													
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				
<b>Total</b>	<b>\$ 116,657</b>	<b>\$ 219,946</b>	<b>\$ 224,182</b>	<b>\$ 84,666</b>	<b>\$ 27,558</b>	<b>\$ 41,127</b>	<b>\$ 16,229</b>	<b>\$ 659</b>	<b>\$ 731,024</b>				
<b>Gross YTD charge-offs</b>	—	—	—	—	—	32	—	—	32				
<b>Installment and other Consumer</b>													
Pass	\$ 7,430	\$ 6,497	\$ 2,720	\$ 1,287	\$ 987	\$ 1,803	\$ 90	\$ —	\$ 20,814				
Watch	—	—	—	—	—	—	—	—	—				
Substandard	—	—	—	—	—	—	—	—	—				
Non-accrual loans	—	—	—	—	—	—	—	—	—				
<b>Total</b>	<b>\$ 7,430</b>	<b>\$ 6,497</b>	<b>\$ 2,720</b>	<b>\$ 1,287</b>	<b>\$ 987</b>	<b>\$ 1,803</b>	<b>\$ 90</b>	<b>\$ —</b>	<b>\$ 20,814</b>				
<b>Gross YTD charge-offs</b>	84	23	7	—	—	232	1	—	347				
<b>Total Portfolio</b>													
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
<b>Total</b>	<b>\$ 321,352</b>	<b>\$ 467,922</b>	<b>\$ 348,589</b>	<b>\$ 167,176</b>	<b>\$ 40,673</b>	<b>\$ 69,913</b>	<b>\$ 121,149</b>	<b>\$ 2,373</b>	<b>\$ 1,539,147</b>
<b>Total Gross YTD charge-offs</b>	<b>\$ 84</b>	<b>\$ 24</b>	<b>\$ 7</b>	<b>\$ 75</b>	<b>\$ —</b>	<b>\$ 424</b>	<b>\$ 14</b>	<b>\$ —</b>	<b>\$ 628</b>

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the average Consolidated Financial Statements  
December 31, 2023, 2022, and 2021**

The following table presents the recorded investment and interest income recognized on impaired loans for by risk categories at December 31, 2022:

(in thousands)	Term Loans							Revolving Loans		
	Amortized Cost Basis by Origination Year and Risk Grades							Converted to Term		
	2022	2021	2020	2019	2018	Prior	Amortized Cost Basis	Revolving Loans	Loans Amortized Cost	Basis
<b>December 31, 2022</b>										
<b>Commercial, Financial, &amp; Agricultural</b>										
Pass	\$ 73,654	\$ 40,681	\$ 37,994	\$ 6,479	\$ 4,050	\$ 2,718	\$ 63,869	\$ 504	\$ 229,949	
Watch	1,228	296	756	150	48	251	3,155	1,527	7,411	
Substandard	5,014	58	24	—	152	—	1,820	—	7,068	
Non-accrual loans	—	—	—	26	95	—	—	—	121	
<b>Total</b>	<b>\$ 79,896</b>	<b>\$ 41,035</b>	<b>\$ 38,774</b>	<b>\$ 6,655</b>	<b>\$ 4,345</b>	<b>\$ 2,969</b>	<b>\$ 68,844</b>	<b>\$ 2,031</b>	<b>\$ 244,549</b>	
<b>Gross YTD charge-offs</b>	<b>135</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>135</b>
<b>Real Estate Construction - Residential</b>										
Pass	\$ 29,289	\$ 1,248	\$ 769	\$ 449	\$ —	\$ —	\$ 340	\$ —	\$ 32,095	
Watch	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
Non-accrual loans	—	—	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 29,289</b>	<b>\$ 1,248</b>	<b>\$ 769</b>	<b>\$ 449</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 340</b>	<b>\$ —</b>	<b>\$ 32,095</b>	
<b>Gross YTD charge-offs</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Real Estate Construction - Commercial</b>										
Pass	\$ 60,318	\$ 67,977	\$ 2,249	\$ 78	\$ 676	\$ 656	\$ 1,831	\$ —	\$ 133,785	
Watch	2,239	321	—	—	—	14	103	—	2,677	
Substandard	686	—	—	—	—	—	—	—	686	
Non-accrual loans	—	—	—	—	—	87	—	—	87	
<b>Total</b>	<b>\$ 63,243</b>	<b>\$ 68,298</b>	<b>\$ 2,249</b>	<b>\$ 78</b>	<b>\$ 676</b>	<b>\$ 757</b>	<b>\$ 1,934</b>	<b>\$ —</b>	<b>\$ 137,235</b>	
<b>Gross YTD charge-offs</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Real Estate Mortgage - Residential</b>										
Pass	\$ 147,130	\$ 68,380	\$ 53,322	\$ 8,013	\$ 4,981	\$ 25,590	\$ 45,182	\$ 523	\$ 353,121	
Watch	1,226	429	1,511	145	215	2,015	—	—	5,541	
Substandard	—	136	820	—	10	712	—	—	1,678	
Non-accrual loans	59	—	144	—	—	386	96	—	685	
<b>Total</b>	<b>\$ 148,415</b>	<b>\$ 68,945</b>	<b>\$ 55,797</b>	<b>\$ 8,158</b>	<b>\$ 5,206</b>	<b>\$ 28,703</b>	<b>\$ 45,278</b>	<b>\$ 523</b>	<b>\$ 361,025</b>	
<b>Gross YTD charge-offs</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Real Estate Mortgage - Commercial</b>										
Pass	\$ 248,529	\$ 203,033	\$ 99,989	\$ 31,341	\$ 21,354	\$ 38,317	\$ 10,868	\$ 121	\$ 653,552	

Watch	14,049	14,029	16,863	842	897	811	149	401	48,041
Substandard	260	2,673	—	48	—	306	—	48	3,335
Non-accrual loans	4,621	13,180	—	—	—	—	—	—	17,801
<b>Total</b>	<b>\$ 267,459</b>	<b>\$ 232,915</b>	<b>\$ 116,852</b>	<b>\$ 32,231</b>	<b>\$ 22,251</b>	<b>\$ 39,434</b>	<b>\$ 11,017</b>	<b>\$ 570</b>	<b>\$ 722,729</b>
<b>Gross YTD charge-offs</b>	<b>101</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>80</b>	<b>—</b>	<b>—</b>	<b>181</b>
<b>Installment and other Consumer</b>									
Pass	\$ 11,170	\$ 5,183	\$ 2,891	\$ 2,016	\$ 459	\$ 88	\$ 1,806	\$ —	\$ 23,613
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Non-accrual loans	2	3	—	1	—	—	—	—	6
<b>Total</b>	<b>\$ 11,172</b>	<b>\$ 5,186</b>	<b>\$ 2,891</b>	<b>\$ 2,017</b>	<b>\$ 459</b>	<b>\$ 88</b>	<b>\$ 1,806</b>	<b>\$ —</b>	<b>\$ 23,619</b>
<b>Gross YTD charge-offs</b>	<b>268</b>	<b>10</b>	<b>5</b>	<b>21</b>	<b>1</b>	<b>—</b>	<b>16</b>	<b>—</b>	<b>321</b>
<b>Total Portfolio</b>									
Pass	\$ 570,090	\$ 386,502	\$ 197,214	\$ 48,376	\$ 31,520	\$ 67,369	\$ 123,896	\$ 1,148	\$ 1,426,115
Watch	18,742	15,075	19,130	1,137	1,160	3,091	3,407	1,928	63,670
Substandard	5,960	2,867	844	48	162	1,018	1,820	48	12,767
Non-accrual loans	4,682	13,183	144	27	95	473	96	—	18,700
<b>Total</b>	<b>\$ 599,474</b>	<b>\$ 417,627</b>	<b>\$ 217,332</b>	<b>\$ 49,588</b>	<b>\$ 32,937</b>	<b>\$ 71,951</b>	<b>\$ 129,219</b>	<b>\$ 3,124</b>	<b>\$ 1,521,252</b>
<b>Total Gross YTD charge-offs</b>	<b>\$ 504</b>	<b>\$ 10</b>	<b>\$ 5</b>	<b>\$ 21</b>	<b>\$ 1</b>	<b>\$ 80</b>	<b>\$ 16</b>	<b>\$ —</b>	<b>\$ 637</b>

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the years ended December 31, 2022 and 2021: Consolidated Financial Statements**

<i>(in thousands)</i>	2022			2021		
	Average Recorded Investment	Interest Recognized For the Period Ended	Average Recorded Investment	Interest Recognized For the Period Ended		
<b>With no related allowance recorded:</b>						
Commercial, financial and agricultural	\$ —	\$ —	\$ —	\$ 5,063	\$ 35	
Real estate mortgage – residential	1	1	—	1,142	38	
Real estate mortgage – commercial	16,230	—	—	14,639	1	
Installment and other consumer	—	—	—	19	—	
<b>Total</b>	<b>\$ 16,231</b>	<b>\$ 1</b>	<b>\$ 20,863</b>	<b>\$ 74</b>		
<b>With an allowance recorded:</b>						
Commercial, financial and agricultural	\$ 319	\$ 10	\$ 357	\$ 21		
Real estate construction – residential	—	—	47	—		
Real estate construction – commercial	93	97	131	—		
Real estate mortgage – residential	2,189	29	1,652	35		
Real estate mortgage – commercial	428	1	8,974	31		
Installment and other consumer	90	—	43	4		
<b>Total</b>	<b>\$ 3,119</b>	<b>\$ 137</b>	<b>\$ 11,204</b>	<b>\$ 91</b>		
<b>Total impaired loans</b>	<b>\$ 19,350</b>	<b>\$ 138</b>	<b>\$ 32,067</b>	<b>\$ 165</b>		

The recorded investment varies from the unpaid principal balance primarily due to partial charge-offs taken as a result of current appraisals received. The amount recognized as interest income on impaired loans continuing to accrue interest, primarily related to troubled debt restructurings, was \$0.14 million and \$0.17 million, for the years ended December 31, 2022 December 31, 2023, 2022, and 2021 respectively. The average recorded investment in impaired loans is calculated on a monthly basis during the years reported.

**Delinquent and Non-Accrual Loans**

The delinquency status of loans is determined based on the contractual terms of the notes. Borrowers 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 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.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020**

The following table provides aging information for tables present the Company's recorded investment in non-accrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2023 and non-accrual 2022.

(in thousands)	Non-accrual with no Allowance	Non-accrual with Allowance	Total Non-accrual (1)	90 Days Past Due And Still Accruing	Total Non-performing Loans
<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>
<b>December 31, 2022</b>					
Commercial, Financial, and Agricultural	\$ —	\$ 121	\$ 121	\$ —	\$ 121
Real estate construction – commercial	—	87	87	—	87
Real estate mortgage – residential	—	685	685	—	685
Real estate mortgage – commercial	17,664	137	17,801	—	17,801
Installment and Other Consumer	—	6	6	1	7
<b>Total</b>	<b>\$ 17,664</b>	<b>\$ 1,036</b>	<b>\$ 18,700</b>	<b>\$ 1</b>	<b>\$ 18,701</b>

(1) Includes \$0.2 million and \$0.3 million of restructured loans at December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

(in thousands)	Current or Less Than 30 Days		90 Days Past Due		Non-Accrual	Total
	30 Days Past Due	30 - 89 Days Past Due	And Still Accruing	Non-Accrual		
	Past Due	Past Due	Accruing	Non-Accrual		
<b>December 31, 2022</b>						
Commercial, Financial, and Agricultural	\$ 244,392	\$ 36	\$ —	\$ 121	\$ 244,549	
Real estate construction – residential	32,095	—	—	—	32,095	
Real estate construction – commercial	137,148	—	—	87	137,235	
Real estate mortgage – residential	359,672	668	—	685	361,025	
Real estate mortgage – commercial	704,925	3	—	17,801	722,729	
Installment and Other Consumer	23,506	106	1	6	23,619	
<b>Total</b>	<b>\$ 1,501,738</b>	<b>\$ 813</b>	<b>\$ 1</b>	<b>\$ 18,700</b>	<b>\$ 1,521,252</b>	
<b>December 31, 2021</b>						
Commercial, Financial, and Agricultural	\$ 217,058	\$ 3	\$ —	\$ 153	\$ 217,214	
Real estate construction – residential	27,920	—	—	—	27,920	
Real estate construction – commercial	91,264	—	—	105	91,369	
Real estate mortgage – residential	277,532	671	14	1,129	279,346	
Real estate mortgage – commercial	638,982	245	—	24,029	663,256	
Installment and Other Consumer	22,848	137	—	43	23,028	
<b>Total</b>	<b>\$ 1,275,604</b>	<b>\$ 1,056</b>	<b>\$ 14</b>	<b>\$ 25,459</b>	<b>\$ 1,302,133</b>	

**Credit Quality**

The Company categorizes loans into risk categories based upon an internal rating system reflecting management's risk assessment. Loans are placed on *watch* status when one or more weaknesses are 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. Loans classified as *substandard* 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 one or more well-defined 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. A loan is classified as a TDR when a borrower is experiencing financial difficulties that lead to the restructuring of a loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. Loans classified as TDRs that are accruing interest are classified as performing TDRs. Loans classified as TDRs that are not accruing interest are classified as non-performing TDRs and are included with all other non-accrual loans for presentation purposes. It is the Company's policy to discontinue the accrual of material amount of interest income was recognized on non-accrual loans when management believes that during the collection of interest or principal is doubtful. year ended December 31, 2023.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

The following table provides aging information for the Company's past due and non-accrual loans at December 31, 2023 and 2022.

(in thousands)	Current or		90 Days			Non-Accrual	Total		
	Less Than		Past Due						
	30 Days	30 - 89 Days	And Still						
<b>December 31, 2023</b>									
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				
<b>Total</b>	<b>\$ 1,529,232</b>	<b>\$ 3,502</b>	<b>119</b>	<b>\$ 6,294</b>	<b>\$ 1,539,147</b>				
<b>December 31, 2022</b>									
Commercial, Financial, and Agricultural	\$ 244,392	\$ 36	—	\$ 121	\$ 244,549				
Real estate construction – residential	32,095	—	—	—	32,095				
Real estate construction – commercial	137,148	—	—	87	137,235				
Real estate mortgage – residential	359,672	668	—	685	361,025				
Real estate mortgage – commercial	704,925	3	—	17,801	722,729				
Installment and Other Consumer	23,506	106	1	6	23,619				
<b>Total</b>	<b>\$ 1,501,738</b>	<b>\$ 813</b>	<b>1</b>	<b>\$ 18,700</b>	<b>\$ 1,521,252</b>				

**Loan Modifications for Borrowers Experiencing Financial Difficulty Subsequent to the Adoption of ASU 2022-02**

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 year ended December 31, 2023, the Company did not modify any loans made to borrowers experiencing financial difficulty. The Company monitors loan payments on an ongoing 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.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

The following table presents the risk categories by class at December 31, 2022 and 2021.

(in thousands)	Commercial, Financial, & Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment and other Consumer	Total
<b>At December 31, 2022</b>							
Watch	\$ 7,411	\$ —	\$ 2,677	\$ 5,541	\$ 48,041	\$ —	\$ 63,670
Substandard	6,894	—	686	500	3,026	—	11,106
Performing TDRs	174	—	—	1,178	309	—	1,661
Non-accrual loans	121	—	87	685	17,801	6	18,700
<b>Total</b>	<b>\$ 14,600</b>	<b>\$ —</b>	<b>\$ 3,450</b>	<b>\$ 7,904</b>	<b>\$ 69,177</b>	<b>\$ 6</b>	<b>\$ 95,137</b>
<b>At December 31, 2021</b>							
Watch	\$ 9,219	\$ —	\$ 4,304	\$ 12,185	\$ 43,348	\$ —	\$ 69,056
Substandard	6,284	—	2,673	750	2,305	—	12,012
Performing TDRs	188	—	—	1,262	328	17	1,795
Non-accrual loans	153	—	105	1,129	24,029	43	25,459
<b>Total</b>	<b>\$ 15,844</b>	<b>\$ —</b>	<b>\$ 7,082</b>	<b>\$ 15,326</b>	<b>\$ 70,010</b>	<b>\$ 60</b>	<b>\$ 108,322</b>

information regarding modifications to borrowers experiencing financial difficulty as of December 31, 2023:

(Dollars in thousands)	December 31, 2023		
	Number of contracts	Recorded Investment	% to Total Loans
Commercial, financial and agricultural	2	\$ 160	0.01%
Real estate mortgage – residential	6	980	0.06%
Real estate mortgage – commercial	2	270	0.02%
<b>Total</b>	<b>10</b>	<b>\$ 1,410</b>	<b>0.09 %</b>

#### **Troubled Debt Restructurings (TDRs) Prior to Adoption of ASU 2022-02**

Prior to the adoption of ASU 2022-02, the Company accounted for a modification to the contractual terms of a loan that resulted in granting a concession to a borrower experiencing financial difficulties as a TDR. See "Note 1 Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 for more information on our TDR policy, and "Note 1, Summary of Significant Accounting Policies" in this report for more information on the adoption of ASU 2022-02.

At December 31, 2022, loans classified as TDRs totaled \$1.9 million, of which \$0.2 million \$0.3 million were classified as non-performing TDRs and \$1.7 million were classified as performing TDRs. At December 31, 2021, loans classified as TDRs totaled \$2.4 million, of which \$0.6 million were classified as non-performing TDRs and \$1.8 million were classified as performing TDRs. Both performing and nonperforming non-performing TDRs are considered impaired loans. When an individual loan is determined to be a TDR, the amount of impairment is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral less applicable selling costs. Accordingly, specific reserves of \$0.2 million and \$0.2 million \$136,000 related to TDRs were allocated to the allowance for loan losses at December 31, 2022 and 2021, respectively.

The Company's portfolio of loans classified as TDRs include concessions for the borrower due to deteriorated financial condition, such as reducing interest rates below the current market rate, deferring principal payments, and extending maturity dates. During For the year ended December 31, 2022 there were, the Company had two new loans totaling \$0.05 million meeting the TDR criteria that were modified compared to no such loans during the year ended December 31, 2021.

The Company considers a TDR to be in default when it becomes 90 days or more past due under the modified terms, a charge-off occurs, or it is in the process of foreclosure. There and there were no loans modified as TDRs for which there was a TDR, where a concession was made and payment default within the loan subsequently defaulted within 12 months of its modification date, during following the years ended December 31, 2022 and 2021, respectively, restructure date.

#### **Loans Held for Sale**

The Company designates certain long-term fixed rate personal real estate loans as held for sale. In the fourth quarter of 2021, the Company elected These loans are initially measured at fair value under the fair value option for all newly originated long-term personal real estate loans held for sale, election with subsequent changes in fair value recognized in mortgage banking income. The loans are primarily sold to Freddie Mac, Fannie Mae, PennyMac, and various other various secondary-market secondary market investors. At December 31, 2022 December 31, 2023, the carrying amount of these loans was \$0.6 million \$3.9 million compared to \$2.2 million \$0.6 million at December 31, 2021 December 31, 2022.

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

(in thousands)	2023	2022
Real estate construction - commercial	\$ 7,668	\$ 10,094
Real estate mortgage - residential	20	179

Real estate mortgage - commercial	—	1,186
Repossessed assets	6	—
Total	\$ 7,694	\$ 11,459
Less valuation allowance for other real estate owned	(5,950)	(2,664)
<b>Total other real estate owned</b>	<b>\$ 1,744</b>	<b>\$ 8,795</b>

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

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

(in thousands)	2022	2021
Commercial	\$ —	\$ 643
Real estate construction - commercial	10,094	10,166
Real estate mortgage - residential	179	117
Real estate mortgage - commercial	1,186	2,510
Total	\$ 11,459	\$ 13,436
Less valuation allowance for other real estate owned	(2,664)	(2,911)
<b>Total other real estate owned</b>	<b>\$ 8,795</b>	<b>\$ 10,525</b>

Changes in the net carrying amount of other real estate owned for the years indicated:

<b>Balance at December 31, 2020</b>	<b>\$ 14,905</b>
Additions	723
Proceeds from sales	(1,551)
Charge-offs against the valuation allowance for other real estate owned, net	(668)
Net gain on sales	27
<b>Balance at December 31, 2021</b>	<b>\$ 13,436</b>
Additions	162
Proceeds from sales	(2,176)
Charge-offs against the valuation allowance for other real estate owned, net	(218)
Net gain on sales	255
<b>Balance at December 31, 2022</b>	<b>\$ 11,459</b>
Additions	71
Proceeds from sales	(2,691)
Charge-offs against the valuation allowance for other real estate owned, net	(1,443)
Net gain on sales	298
<b>Total other real estate owned</b>	<b>\$ 11,459</b>
Less valuation allowance for other real estate owned	(2,664)
<b>Balance at December 31, 2022</b>	<b>\$ 8,795</b>
<b>December 31, 2023</b>	<b>\$ 1,744</b>

At December 31, 2022 December 31, 2023, no \$0.1 million consumer mortgage loans secured by residential real estate properties were in the process of foreclosure compared to \$0.2 million of consumer mortgage loans in the process of foreclosure at December 31, 2021 December 31, 2022.

Activity in the valuation allowance for other real estate owned in settlement of loans for the years indicated was December 31, as follows: indicated:

(in thousands)	2022	2021	2020
<b>Balance, beginning of period</b>	<b>\$ 2,911</b>	<b>\$ 2,614</b>	<b>\$ 2,956</b>
(Release of) provision for other real estate owned	(29)	965	5

Charge-offs	(218)	(668)	(347)
<b>Balance, end of period</b>	<b>\$ 2,664</b>	<b>\$ 2,911</b>	<b>\$ 2,614</b>

(in thousands)	2023	2022	2021
<b>Balance, beginning of year</b>	<b>\$ 2,664</b>	<b>\$ 2,911</b>	<b>\$ 2,614</b>
Provision for (release of) other real estate owned	4,729	(29)	965
Charge-offs	(1,443)	(218)	(668)
<b>Balance, end of year</b>	<b>\$ 5,950</b>	<b>\$ 2,664</b>	<b>\$ 2,911</b>

During 2023 the Company recorded a \$4.7 valuation write-down primarily related to two foreclosed property relationships.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

**(4) Investment Securities**

The amortized cost, gross unrealized gains and losses, and fair value of debt securities classified as available-for-sale at December 31, 2022 December 31, 2023 and 2021 2022 were as follows:

	Total		Gross Unrealized			Fair Value	Total	Gross Unrealized			Fair Value
	Total	Amortized			Fair		Total	Amortized			
		Cost	(in thousands)	Total	Gains	Losses		Cost	(in thousands)	Total	Cost
December 31, 2022		Cost						Cost			
December 31, 2023											
December 31, 2023											
December 31, 2023											
U.S. Treasury											
U.S. Treasury											
U.S. Treasury											
U.S. Treasury	\$ 2,198	\$ —	\$ (46)	\$ 2,152							
U.S. government and federal agency obligations	591	—	(32)	559							
U.S. government- sponsored enterprises	26,499	—	(2,722)	23,777							
Obligations of states and political subdivisions	134,994	—	(25,554)	109,440							
Mortgage- backed securities	119,556	7	(16,864)	102,699							
Other debt securities (a)	11,825	—	(882)	10,943							

Bank issued trust preferred securities (a)	Bank issued trust preferred securities (a)	1,486	—	(309)	1,177
<b>Total available-for-sale securities</b>	<b>Total available-for-sale securities</b>	<b>\$297,149</b>	<b>\$ 7</b>	<b>\$(46,409)</b>	<b>\$250,747</b>
<b>December 31, 2021</b>					
<b>December 31, 2022</b>					
<b>December 31, 2022</b>					
<b>December 31, 2022</b>					
U.S. Treasury	U.S. Treasury	\$ 3,909	\$ 11	\$ (3)	\$ 3,917
U.S. government and federal agency obligations	U.S. government and federal agency obligations	1,314	5	—	1,319
U.S. government- sponsored enterprises	U.S. government- sponsored enterprises	26,498	70	(196)	26,372
Obligations of states and political subdivisions	Obligations of states and political subdivisions	128,093	1,605	(474)	129,224
Mortgage-backed securities	Mortgage-backed securities	137,286	791	(1,611)	136,466
Other debt securities	Other debt securities	11,825	482	(23)	12,284
Bank issued trust preferred securities (a)	Bank issued trust preferred securities (a)	1,486	—	(198)	1,288
<b>Total available-for-sale securities</b>	<b>Total available-for-sale securities</b>	<b>\$310,411</b>	<b>\$2,964</b>	<b>\$ (2,505)</b>	<b>\$310,870</b>

(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, SBA-guaranteed loan certificates, 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, 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 \$89.2 million and \$111.6 million at December 31, 2023 and \$275.4 million at December 31, 2022 and December 31, 2021, respectively, were pledged to secure public funds, were securities sold under agreements to repurchase, or were sold and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities classified as available-for-sale at December 31, 2023, by contractual maturity are shown below. Accrued interest on investments totaled \$1.4 million and \$1.5 million at December 31, 2023 and December 31, 2022, respectively, and is included in the accrued interest receivable 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

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

**The amortized cost and fair value of debt securities classified as available-for-sale at December 31, 2022, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.**

(in thousands)	Amortized (in thousands)	Fair Value	(in thousands)	Amortized Cost	Fair Value
Due in one year or less	Due in one year or less		\$ 9,526	\$ 9,289	
Due after one year through five years	Due after one year through five years		17,261	16,103	
Due after five years through ten years	Due after five years through ten years		30,236	26,999	
Due after ten years	Due after ten years		120,570	95,657	
<b>Total</b>	<b>Total</b>		<b>177,593</b>	<b>148,048</b>	
Mortgage-backed securities	Mortgage-backed securities		119,556	102,699	
<b>Total available-for-sale securities</b>	<b>Total available-for-sale securities</b>		<b>\$297,149</b>	<b>\$250,747</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 MIB stock, that do not have readily determinable fair values, are required for membership in those organizations.

(in thousands)	(in thousands)	2022	2021	(in thousands)	2023	2022
Other securities:	Other securities:					
FHLB stock	FHLB stock	\$6,156	\$5,197			
FHLB stock						
FHLB stock						
MIB stock	MIB stock	151	151			
Equity securities with readily determinable fair values	Equity securities with readily determinable fair values					
		46	60			
<b>Total other investment securities</b>	<b>Total other investment securities</b>			<b>\$6,353</b>	<b>\$5,408</b>	

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 December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 were as follows:

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

	Less than 12 months		Less than 12 months		12 months or more		Total		Total
	(in thousands)		(in thousands)		(in thousands)		Fair Value		Unrealized Losses
<b>At December 31, 2023</b>									
<b>At December 31, 2023</b>									
<b>At December 31, 2023</b>									
U.S. Treasury									
U.S. Treasury									
U.S. Treasury									
U.S.									
government									
and federal									
agency									
obligations									
U.S.									
government-									
sponsored									
enterprises									
Obligations									
of states									
and political									
subdivisions									
Mortgage-									
backed									
securities									
Other debt									
securities									
Bank issued									
trust									
preferred									
securities									
<b>Total</b>									
	Less than 12 months		12 months or more		Total		Total		Total
	(in thousands)	(in thousands)	(in thousands)	(in thousands)	Fair Value		Fair Value		Unrealized Losses
<b>(in thousands)</b>									
<b>(in thousands)</b>									
<b>At December 31, 2022</b>									
<b>At December 31, 2022</b>									
At	At								
December	December								
31, 2022	31, 2022								
U.S.	U.S.								
Treasury	Treasury	\$ 1,908	\$ (41)	\$ 244	\$ (5)	\$ 2,152	\$ (46)		
U.S.	U.S.								
government	government								
and federal	and federal								
agency	agency								
obligations	obligations	559	(32)	—	—	559	(32)		

U.S. government-sponsored enterprises	U.S. government-sponsored enterprises	7,066	(933)	16,711	(1,789)	23,777	(2,722)
Obligations of states and political subdivisions	Obligations of states and political subdivisions	79,396	(15,421)	29,370	(10,133)	108,766	(25,554)
Mortgage-backed securities	Mortgage-backed securities	33,334	(3,124)	68,911	(13,740)	102,245	(16,864)
Other debt securities	Other debt securities	7,557	(443)	3,386	(439)	10,943	(882)
Bank issued trust preferred securities	Bank issued trust preferred securities	—	—	1,177	(309)	1,177	(309)
<b>Total</b>	<b>Total</b>	<b>\$129,820</b>	<b>\$ (19,994)</b>	<b>\$119,799</b>	<b>\$ (26,415)</b>	<b>\$249,619</b>	<b>\$ (46,409)</b>
<b>At December 31, 2021</b>							
U.S. Treasury	U.S. Treasury	\$ 1,758	\$ (3)	—	—	\$ 1,758	\$ (3)
U.S. government-sponsored enterprises	Obligations of states and political subdivisions	18,304	(196)	—	—	18,304	(196)
Mortgage-backed securities	—	39,221	(474)	—	—	39,221	(474)
Other debt securities	—	89,520	(1,579)	1,864	(32)	91,384	(1,611)
Bank-issued trust preferred securities	—	3,802	(23)	—	—	3,802	(23)
<b>Total</b>	<b>Total</b>	<b>\$152,605</b>	<b>\$ (2,275)</b>	<b>\$ 3,152</b>	<b>\$ (230)</b>	<b>\$155,757</b>	<b>\$ (2,505)</b>

The total available-for-sale portfolio consisted of approximately 385 securities at December 31, 2023. The portfolio included 370 securities having an aggregate fair value of \$172.7 million that were in a loss position at December 31, 2023. Securities identified as temporarily impaired which had been in a loss position for 12 months or longer totaled \$155.2 million at fair value at December 31, 2023. The \$27.3 million aggregate unrealized loss included in accumulated other comprehensive income at December 31, 2023 was caused by interest rate fluctuations.

The total available-for-sale portfolio consisted of approximately 439 securities at December 31, 2022. The portfolio included 436 securities having an aggregate fair value of \$249.6 million that were in a loss position at December 31, 2022. Securities identified as temporarily impaired which had been in a loss position for 12 months or longer totaled \$119.8 million at fair value of \$119.8 million at December 31, 2022. The \$46.4 million aggregate unrealized loss included in accumulated other comprehensive income at December 31, 2022 was caused by interest rate fluctuations.

The total available-for-sale portfolio consisted of approximately 435 securities at December 31, 2021. The portfolio included 134 securities having an aggregate fair value of \$155.8 million that were in a loss position at December 31, 2021. Securities identified as temporarily impaired which had been in a loss position for 12 months or longer had a fair value of \$3.2 million at December 31, 2021. The \$2.5 million aggregate unrealized loss included in accumulated other comprehensive income at December 31, 2021 was caused by interest rate fluctuations.

Because the decline in fair value is attributable to changes in interest rates and not credit quality, these investments were not considered other-than-temporarily impaired at December 31, 2022 December 31, 2023 and 2021, 2022, respectively. 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. In addition, 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.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

The following table presents the gross unrealized realized gains and losses from sales and calls of available-for-sale securities, as well as gains and losses on equity securities from fair value adjustments which have been recognized in earnings:

	(in thousands)	(in thousands)	2022	2021	2020	(in thousands)	2023	2022	2021
<b>Available-for-sale securities:</b>									
Gains realized on sales	\$ —	\$ 122	\$ 49						
Losses realized on sales	—	—	(8)						
Gross realized gains									
Gross realized gains									
Gross realized gains							\$ —	\$ —	\$ 122
Gross realized losses									
Gross realized losses								(11,562)	—
Other-than-temporary impairment recognized	Other-than-temporary impairment recognized	—	—	—	—	Other-than-temporary impairment recognized	—	—	—
<b>Other investment securities:</b>									
Fair value adjustments, net	Fair value adjustments, net	(14)	27	20					
<b>Investment securities gains (losses), net</b>		<b>\$149</b>	<b>\$61</b>						
Fair value adjustments, net								32	(14)
<b>Certificates of deposit:</b>									27
Gross realized gains									
Gross realized gains									
Gross realized gains								—	—
Gross realized losses									
Gross realized losses								(17)	—
<b>Investment securities (losses) gains, net</b>		<b>Investment securities (losses) gains, net</b>					\$ (11,547)	\$ (14)	\$ 149

## (5) Premises and Equipment

A summary of premises and equipment at December 31, 2022 December 31, 2023 and 2021 2022 is as follows:

(in thousands)	(in thousands)	2022	2021	(in thousands)	2023	2022
Land and land improvements	Land and land improvements	\$ 9,576	\$ 9,481			
Buildings and improvements	Buildings and improvements	35,330	35,688			
Furniture and equipment	Furniture and equipment	13,245	13,183			
Operating leases - right of use asset	Operating leases - right of use asset	2,539	2,538			

Construction in progress	Construction in progress	1,475	82
Total	Total	\$62,165	\$60,972
Less accumulated depreciation	Less accumulated depreciation	29,309	28,253
Premises and equipment, net	Premises and equipment, net	\$32,856	\$32,719

Depreciation expense for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021 was as follows:

(in thousands)	(in thousands)	2022	2021	2020	(in thousands)	2023	2022	2021
Depreciation expense	Depreciation expense	\$2,141	\$2,283	\$2,265				

#### (6) Intangible Assets

##### Mortgage Servicing Rights

At December 31, 2022 December 31, 2023 the Company was servicing \$240.5 million \$220.7 million of loans sold to the secondary market compared to \$240.5 million and \$270.0 million at December 31, 2022 and \$292.7 million at December 31, 2021 and 2020, 2021, respectively. Mortgage loan servicing fees, reported in real estate servicing fees, net, earned on loans sold and serviced for others were \$0.8 million \$0.6 million, \$0.8 million, and \$0.9 million \$0.8 million, for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021, respectively.

### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020 2021

The table below presents changes in mortgage servicing rights for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021.

(in thousands)	(in thousands)	2022	2021	2020	(in thousands)	2023	2022	2021
<b>Balance at beginning of period</b>		\$2,659	\$2,445	\$2,482				
<b>Balance at beginning of year</b>								
Originated mortgage servicing rights	Originated mortgage servicing rights	64	400	866				
Changes in fair value:	Changes in fair value:							
Due to changes in model inputs and assumptions	Due to changes in model inputs and assumptions							
(1)	(1)	479	258	(422)				
Due to changes in model inputs and assumptions (1)								
Due to changes in model inputs and assumptions (1)								
Other changes in fair value (2)	Other changes in fair value (2)	(303)	(444)	(481)				

Total changes in fair value	176	(186)	(903)
<b>Balance at end of period</b>	<b>\$2,899</b>	<b>\$2,659</b>	<b>\$2,445</b>
<b>Balance at end of year</b>			

(1) The change in fair value resulting from changes in valuation inputs or assumptions used in the valuation model reflects the change in discount rates and prepayment speed assumptions primarily due to changes in interest rates. The fourth quarter of 2023 includes a \$1.1 million MSR valuation write-down upon accepting a letter of intent to sell the Company's servicing portfolio during the first quarter of 2024.

(2) Other changes in fair value 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 mortgage servicing rights MSRs as of December 31, 2022 December 31, 2023 and 2021: 2022:

	2022	2021			
	2023				
Weighted average constant prepayment rate	6.61 %	10.65 %	Weighted average constant prepayment rate	6.55	%
Weighted average note rate	3.43 %	3.37 %	Weighted average note rate	3.52	%
Weighted average discount rate	11.25 %	8.00 %	Weighted average discount rate	11.00	%
Weighted average expected life (in years)	7.2	6.1	Weighted average expected life (in years)	7.1	7.2

## (7) Deposits

The table below represents the aggregate amount of time deposits with balances that met or exceeded the FDIC insurance limit of \$250,000 was \$94.9 million and \$69.1 million at December 31, 2022 and 2021, respectively. The Company had brokered deposits totaling \$40.1 million as of December 31, 2023 and \$20.2 million at December 31, 2022 and 2021, respectively, 2022:

(aggregate amounts in thousands)	December 31, 2023	December 31, 2022
Time deposits with balances > \$250,000	\$ 108,147	\$ 94,859
Brokered deposits	\$ 161	\$ 40,135

The scheduled maturities of total time deposits at December 31, 2022 December 31, 2023 were as follows:

(in thousands)		
(aggregate amounts in thousands)		
Due within:	Due within:	
2023	\$	182,953
Due within:		
2024		
2024	2024	58,224
2025	2025	5,998

2026	2026	1,842
2027	2027	6,017
2028		
Thereafter	Thereafter	—
<b>Total</b>	<b>Total</b>	<b>\$ 255,034</b>

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

Average compensating balances held at correspondent banks were \$0.4 million and \$0.5 million at December 31, 2023 and \$1.9 million at December 31, 2022 and 2021, 2022, respectively. The Bank maintains such compensating balances with correspondent banks to offset charges for services rendered by those banks.

**(8) Federal Funds Purchased and Securities Sold Under Agreements to Repurchase**

Information relating to federal funds purchased and repurchase agreements is as follows:

		Year End (in thousands)	Average Weighted Rate	Average Weighted Rate	Maximum Outstanding Balance at any Month End	at December 31,	(in thousands)	Year End Weighted Rate	Average Weighted Rate	Average Balance Outstanding	Maximum Outstanding at any Month End	Balance at December 31,
<b>2022</b>												
<b>2023</b>												
Federal funds purchased												
Federal funds purchased												
Federal funds purchased	Federal funds purchased	4.71	%	3.82	%	\$ 32	\$	—	\$	—		
Short-term repurchase agreements	Short-term repurchase agreements											
- Bank	- Bank	1.47		0.63		7,950	\$	22,048	\$	5,187		
<b>Total</b>	<b>Total</b>					\$ 7,982	\$	22,048	\$	5,187		
<b>2021</b>												
<b>2022</b>												
Federal funds purchased												
Federal funds purchased												
Federal funds purchased	Federal funds purchased	0.43	%	0.34	%	\$ 1	\$	—	\$	—		
Short-term repurchase agreements	Short-term repurchase agreements											
- Bank	- Bank	0.27		0.25		34,448	\$	55,942	\$	23,829		
<b>Total</b>	<b>Total</b>					\$ 34,449	\$	55,942	\$	23,829		

The securities underlying the agreements to repurchase are under the control of the Bank. All securities sold under agreements to repurchase are secured by a portion of the Bank's investment portfolio. Under agreements with unaffiliated banks, the Bank may borrow federal funds up to \$60.0 million \$35.0 million on an unsecured basis and \$8.1 million \$8.6 million on a secured basis at December 31, 2022 December 31, 2023.

The Company offers elected to discontinue the repurchase agreement product during 2023 and customers were moved to reciprocal deposit products within the Company's deposit mix. Prior to the fourth quarter of 2023, the Company offered a sweep account program whereby amounts in excess of an established limit are "swept" from the customer's demand deposit account on a daily basis into retail repurchase agreements pursuant to individual repurchase agreements between the Company and its customers. Repurchase agreements are agreements to sell securities subject to an obligation to repurchase the same or similar securities. They are accounted for as collateralized financing transactions, not as sales

and purchases of the securities portfolio. The securities collateral pledged for the repurchase agreements with customers is maintained by a designated third party custodian. The collateral amounts pledged to repurchase agreements by remaining maturity in the table below are limited to the outstanding balances of the related asset or liability; thus amounts of excess collateral are not shown.

Repurchase Agreements	Repurchase Agreements	Remaining Contractual Maturity of the Agreements			Repurchase Agreements			Remaining Contractual Maturity of the Agreements			
		Less	Greater	Overnight	Less	Greater	Total	and	90 days	Less	than
		Overnight	than	than	and	90 days	Total	continuous	90 days	Greater	than
(in thousands)	(in thousands)	continuous	days	days	Total	(in thousands)		continuous	90 days	Greater	than
<b>At December 31, 2022</b>											
<b>At December 31, 2022</b>											
At December 31, 2022	At December 31, 2022										
U.S.	U.S.										
government- government- sponsored enterprises	government- government- sponsored enterprises	\$ 5,187	\$—	\$ —	\$ 5,187						
<b>Total</b>		<b>\$ 5,187</b>	<b>\$—</b>	<b>\$ —</b>	<b>\$ 5,187</b>						
<b>At December 31, 2021</b>											
U.S. government- sponsored enterprises	U.S. government- sponsored enterprises										
U.S.	U.S.										
government- government- sponsored enterprises	government- government- sponsored enterprises	\$ 9,113	\$—	\$ —	\$ 9,113						
Mortgage-backed securities	Mortgage-backed securities	14,716	—	—	14,716						
<b>Total</b>	<b>Total</b>	<b>\$ 23,829</b>	<b>\$—</b>	<b>\$ —</b>	<b>\$ 23,829</b>						
<b>Total</b>											
<b>Total</b>											

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020

#### (9) 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 December 31, 2022 December 31, 2023, operating right-of-use ("ROU") assets and liabilities were \$1.5 million \$1.2 million and \$1.5 million \$1.2 million,

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

respectively. As of December 31, 2022 December 31, 2023, the weighted-average remaining lease term on these operating leases is approximately 5.7 5.2 years and the weighted-average discount rate used to measure the lease liabilities is approximately 4.0% 4%.

Operating leases in which the Company is the lessee are recorded as operating lease right-of-use 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.

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 accrued 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 \$0.4 million and \$0.4 million for each of the years ended December 31, 2022 December 31, 2023 and 2021, respectively.

At the adoption of ASU 2016-02 on January 1, 2019, lease and non-lease components of new lease agreements are accounted for separately. Lease components include fixed payments including rent, real estate taxes and insurance costs and non-lease components include common-area maintenance costs. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. Operating lease expense for these leases was \$0.1 million for each of the years ended December 31, 2022 compared to \$0.1 million for the year ended December 31, 2021 December 31, 2023 and 2022.

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

Lease payments due in:	Lease payments due in:	Operating Lease payments due in:	Operating Lease
(in thousands)	(in thousands)		
2023		\$ 367	
2024			
2024	2024	258 \$	253
2025	2025	257 2025	257
2026	2026	259 2026	259
2027	2027	262 2027	262
2028		2028	264
Thereafter	Thereafter	309 Thereafter	44
Total lease payments	Total lease payments	1,712 Total lease payments	1,339
Less imputed interest	Less imputed interest	(179)	
Total lease liabilities, as reported	Total lease liabilities, as reported	\$ 1,533 Total lease liabilities, as reported	\$ 1,213

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

#### (10) Borrowings

FHLB Federal Home Loan Bank and other borrowings of the Company consisted of the following:

			2022		2021					2023			
(in thousands)	(in thousands)	Borrower	Maturity Date	Year End		Year End		(in thousands)	Borrower	Maturity Date	Year End		Year End
				Year End Balance	Weighted Rate	Year End Balance	Weighted Rate				Year End Balance	Weighted Rate	
FHLB advances	FHLB advances	The Bank	2022 \$ — — %	\$ 9,418	1.33 %	2023 \$ — — —	— %	2023 \$ — — —	— %	2023 \$ 21,000	2.64 %	21,000	
			2023 21,000 2.64 %	11,000	1.05 %								

	2024	16,000	2.30 %	11,000	1.17 %	
	2025	20,000	1.99 %	15,000	1.17 %	
	2026	13,000	1.09 %	13,000	1.09 %	
	2027	17,500	3.28 %	7,500	2.05 %	
	Thereafter	10,500	1.61 %	10,500	1.61 %	
	2024					2024 26,000
	2025					2025 30,000
	2026					2026 23,000
	2027					2027 17,500
	2028					2028 —
	Thereafter					Thereafter 10,500
<b>Total Bank</b>	<b>Total Bank</b>					
		<b>\$98,000</b>		<b>\$77,418</b>		
Subordinated notes	Subordinated notes	The Company	2034 \$25,774 7.44 %	\$25,774 2.92 %		
			2035 23,712 6.57 %	23,712 2.05 %		
Subordinated notes						
Subordinated notes			The Company	2034 \$25,774 8.34 %		\$25,774
	2035				2035	23,712
<b>Total Company</b>	<b>Total Company</b>			<b>\$49,486</b>		<b>\$49,486</b>

As The Bank is a member of the FHLB, the Federal Home Loan Bank of Des Moines (FHLB) and has access to term financing from the FHLB. These borrowings, which are all **fixed-rate**, are secured under a blanket agreement which assigns all investment in FHLB stock, as well as qualifying first mortgage loans as collateral to secure amounts borrowed by the Bank. As of December 31, 2022 December 31, 2023, the Bank had \$98.0 million \$107.0 million in outstanding borrowings with the FHLB. Based upon the collateral pledged to the FHLB at December 31, 2022 December 31, 2023, the Bank could borrow up to an additional \$209.9 million \$210.9 million under the agreement.

On March 17, 2005, Exchange Statutory Trust II, a business trust and subsidiary of the Company, issued \$23.0 million of 30-year floating-rate floating rate Trust Preferred Securities ("TPS") (TPS) to a TPS Pool. The floating rate is equal to the three-month LIBOR CME Term SOFR rate plus 1.83% and reprices quarterly (6.57% (7.47% at December 31, 2022 December 31, 2023). The TPS can be prepaid without penalty at any time after five years from the issuance date.

The TPS represent preferred interests in the trust. The Company invested approximately \$0.7 million in common interests in the trust and the purchaser in the private placement purchased \$23.0 million in preferred interests. The proceeds were used by the trust to purchase from the Company its 30-year subordinated debentures whose terms mirror those stated above for the TPS. The debentures are guaranteed by the Company pursuant to a subordinated guarantee. Distributions on the TPS are payable quarterly on March 17, June 17, September 17, and December 17 of each year that the TPS are outstanding. The trustee for the TPS holders is U.S. Bank, N.A. The trustee does not have the power to take enforcement action in the event of a default under the TPS for five years from the date of default. In the event of default, however, the Company would be precluded from paying dividends until the default is cured.

On March 17, 2004, Exchange Statutory Trust I, a business trust and subsidiary of the Company (together with Exchange Statutory Trust II, the "Exchange Statutory Trusts"), issued \$25.0 million of floating rate TPS to a TPS Pool. The floating rate is equal to the three-month LIBOR CME Term SOFR rate plus 2.70% and reprices quarterly (7.44% (8.34% at December 31, 2022 December 31, 2023). The TPS are fully, irrevocably, and unconditionally guaranteed on a subordinated basis by the Company.

The TPS represent preferred interests in the trust. The Company invested approximately \$0.8 million in common interests in the trust and the purchaser in the private placement purchased \$25.0 million in preferred interests. The proceeds of the TPS were invested in junior subordinated debentures of the Company. Distributions on the TPS are payable quarterly on

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

March 17, June 17, September 17, and December 17 of each year that the TPS are outstanding. The TPS mature on March 17, 2034. That maturity date may be shortened if certain conditions are met.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020

The Exchange Statutory Trusts are not consolidated in the Company's financial statements. Accordingly, the Company does not report the securities issued by the Exchange Statutory Trusts as liabilities, and instead reports the subordinated notes issued by the Company and held by the Exchange Statutory Trusts as liabilities. The amount of the subordinated notes as of December 31, 2022 December 31, 2023 and 2021 2022 was \$49.5 million, respectively. The Company has recorded the investments in the common securities issued by the Exchange Statutory Trusts aggregating \$1.2 million as of both December 31, 2023 and \$1.3 million at December 31, 2022 and 2021, 2022, respectively, and the corresponding obligations under the subordinated notes, as well as the interest income and interest expense on such investments and obligations in its consolidated financial statements.

**(11) Income Taxes (Benefit)**

The composition of income tax expense (benefit) for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021 was as follows:

(in thousands)	(in thousands)	2022	2021	2020	(in thousands)	2023	2022	2021
<b>Current:</b>								
Federal								
Federal	Federal	\$4,591	\$5,351	\$4,268				
State	State	(134)	630	—				
<b>Total current</b>	<b>Total current</b>	<b>4,457</b>	<b>5,981</b>	<b>4,268</b>				
<b>Deferred:</b>								
Federal	Federal	(119)	(284)	(1,085)				
Federal								
State	State	—	—	—				
<b>Total deferred</b>	<b>deferred</b>	<b>(119)</b>	<b>(284)</b>	<b>(1,085)</b>				
<b>Total income tax expense</b>		<b>\$4,338</b>	<b>\$5,697</b>	<b>\$3,183</b>				
<b>Total income tax (benefit)</b>								

Applicable income tax expense (benefit) for financial reporting purposes differs from the amount computed by applying the statutory federal income tax rate for the reasons noted in the table for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021 are as follows:

	2022	2021	2020		2023	2022	2021		
(in thousands)	(in thousands)	Amount	%	(in thousands)	Amount	%	(in thousands)	Amount	%
<b>Income before provision for income tax expense</b>									
\$25,089									
<b>Income before provision for income tax (benefit)</b>									
Tax at statutory federal income tax rate									

Tax at statutory federal income tax rate									
Tax at statutory federal income tax rate	Tax at statutory federal income tax rate	\$ 5,269	21.00 %	\$ 5,925	21.00 %	\$ 3,670	21.00 %	\$ 91	21.00 %
Tax- exempt income, net	Tax- exempt income, net	(821)	(3.27)	(733)	(2.60)	(487)	(2.79)		
State income tax, net of federal tax benefit		(106)	(0.42)	498	1.76	—	—		
State income tax (benefit), net of federal tax benefit									
Other, net	Other, net	(4)	(0.02)	7	0.03	—	—		
<b>Provision for income tax expense</b>									
<b>Provision for income tax expense (benefit)</b>		<b>\$ 4,338</b>	<b>17.29 %</b>	<b>\$ 5,697</b>	<b>20.19 %</b>	<b>\$ 3,183</b>	<b>18.21 %</b>		

Income taxes (benefit) expense as a percentage of earnings before income taxes (benefit) as reported in the consolidated financial statements were 17.3% was (121.5)% for the year ended December 31, 2022 December 31, 2023 compared to 20.2% 17.3% and 18.2% 20.2% for the years ended December 31, 2021 December 31, 2022 and 2020, 2021, respectively. The effective tax rate for each of the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021, respectively, is lower than the U.S. federal statutory rate of 21% primarily due to tax-free revenues.

Also included in the effective tax rate is a \$0.1 million benefit and a \$0.03 million benefit associated with a historic tax credit investment for each of the years ended December 31, 2022 December 31, 2023 and 2021, respectively. The investment is expected to generate a \$0.3 million tax benefit over the life of the project and is being recognized under the deferral method of accounting. During 2021, the Company recognized a \$4.0 million current tax benefit associated with the historic tax credits, partially offset by a \$3.7 million current tax expense associated with the write-off of the investment.

The components of deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 were as follows:

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020 2021

(in thousands)	2022	2021
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 3,267	\$ 2,961
Securities	9,714	—
Pension	—	262

Other real estate owned	559	611
Deferred loan fees	462	401
Lease liability	322	386
Intangible assets	18	20
Accrued / deferred compensation	668	581
Other	420	392
<b>Total deferred tax assets</b>	<b>\$ 15,430</b>	<b>\$ 5,614</b>
<b>Deferred tax liabilities:</b>		
Premises and equipment	\$ 427	\$ 428
Mortgage servicing rights	609	558
Deferred loan costs	422	327
Pension	378	—
Right-of-use asset	313	378
Prepaid expenses	456	409
Securities	—	117
Other	9	5
<b>Total deferred tax liabilities</b>	<b>2,614</b>	<b>2,222</b>
<b>Net deferred tax assets</b>	<b>\$ 12,816</b>	<b>\$ 3,392</b>

The \$9.7 million components of deferred tax assets and deferred tax liabilities at December 31, 2023 and 2022 were as follows:

(in thousands)	2023	2022
<b>Deferred tax assets:</b>		
<b>Allowance for credit losses</b>		
\$	4,669	\$ 3,267
Securities	5,653	9,714
Liability for Unfunded Commitments	199	—
Other real estate owned	1,250	559
Deferred loan fees	437	462
Lease liability	255	322
Accrued / deferred compensation	835	668
Other	393	438
<b>Total deferred tax assets</b>	<b>\$ 13,691</b>	<b>\$ 15,430</b>
<b>Deferred tax liabilities:</b>		
Premises and equipment	\$ 319	\$ 427
Mortgage servicing rights	365	609
Deferred loan costs	444	422
Pension	1,180	378
Right-of-use asset	246	313
Prepaid expenses	187	456
Other	38	9
<b>Total deferred tax liabilities</b>	<b>2,779</b>	<b>2,614</b>
<b>Net deferred tax assets</b>	<b>\$ 10,912</b>	<b>\$ 12,816</b>

The deferred tax asset associated with the unrealized losses on securities is mainly a result of changes in interest rates, and the unrealized losses are considered to be temporary because as the fair value is expected to recover as the securities approach their respective maturity dates. The issuers of the securities are of high-credit high credit quality and all principal amounts are expected to be paid when the securities mature. The Company does not intend to sell and it is likely that the Company will not be required to sell the securities prior to their anticipated recovery.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the appropriate character during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning initiatives in making this assessment. In management's opinion, the Company will more likely than not realize the benefits of its deferred tax assets and, therefore, has not established a valuation allowance against its deferred tax assets as of December 31, 2022 December 31, 2023. Management arrived at this conclusion based upon the level of historical taxable income and projections for future taxable income of the appropriate character over the periods in which the deferred tax assets are deductible.

The Company follows ASC Topic 740, *Income Taxes*, which addresses the accounting for uncertain tax positions. For each of the years ended December 31, 2022 December 31, 2023 and December 31, 2021, respectively, the Company did not have any uncertain tax provisions, and did not record any related tax liabilities.

**(12) Stockholders' Equity, Stock-Based Compensation and Accumulated Other Comprehensive Income (Loss)**

*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

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020 2021

**(12) Stockholders'** 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.

In connection with the approval of the Equity Plan, 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 typically vest in equal amounts over three years. 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 year ended December 31, 2023:

(in thousands, except per share amounts)	RSUs	
	2023	Weighted-Average Grant Date Fair Value Per share
Non-vested beginning of year	—	\$ —
Granted	18,277	20.63
Vested	—	—
Forfeited	—	—
Non-vested end of year	18,277	\$ 20.63

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 in the year ended December 31, 2023 for these RSUs was \$42,000. No share-based compensation expense was recognized in the years ended December 31, 2022 and 2021, respectively. Forfeitures will be recognized as they occur.

At December 31, 2023 there was \$0.3 million of total unrecognized compensation expense related to RSUs that are expected to be recognized over a weighted-average period of 3 years.

*Changes in Issued and Outstanding Shares of Common Stock*

The following table shows the changes in shares of common stock issued and common stock held as treasury shares for the years ended December 31, 2023, 2022, and 2021.

(in thousands, except per share amounts)	Common Stock Issued	Treasury Stock Held	Common Stock Outstanding
<b>Balance at, December 31, 2020</b>	\$ 6,769	\$ (289)	6,480
Stock dividend	255	—	255
Repurchase of common stock	—	(118)	(118)
<b>Balance at, December 31, 2021</b>	\$ 7,024	\$ (407)	6,617
Stock dividend	260	—	260
Repurchase of common stock	—	(109)	(109)
<b>Balance at, December 31, 2022</b>	\$ 7,284	\$ (516)	6,768
Stock dividend	271	—	271

Balance at, December 31, 2023	\$ 7,555	\$ (516)	\$ 7,039
-------------------------------	----------	----------	----------

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021**

**Accumulated Other Comprehensive Income (Loss)**

The following table summarizes the change in the components of the Company's accumulated other comprehensive loss income (loss) for the years ended December 31, as indicated.

(in thousands)	Unrealized Income (Loss)			Unrealized Income (Loss)			Accumulated Other Comprehensive Income (Loss)	
	Unrecognized Net		Accumulated on Pension and Other Comprehensive Income (Loss)	Unrecognized Net Pension and Other Comprehensive Income (Loss)				
	Securities	Postretirement	(1)	Securities	Postretirement	(1)		
<b>Balance, December 31, 2020</b>	\$ 3,353	\$ (1,825)	\$ 1,528					
Other comprehensive income (loss), before reclassifications	(3,690)	367	(3,323)					
Amounts reclassified from accumulated other comprehensive income (loss)	(96)	5,653	5,557					
Other comprehensive income (loss), before tax	(3,786)	6,020	2,234					
Income tax (expense) benefit	795	(1,264)	(469)					
Other comprehensive income (loss), net of tax	(2,991)	4,756	1,765					
<b>Balance, December 31, 2021</b>	<b>\$ 362</b>	<b>\$ 2,931</b>	<b>\$ 3,293</b>					
Other comprehensive income (loss), before reclassifications	(46,860)	—	(46,860)	Other comprehensive income (loss), before reclassifications	(46,860)	—	(46,860)	
Amounts reclassified from accumulated other comprehensive income (loss)	—	2,547	2,547					
Other comprehensive income (loss), before tax	(46,860)	2,547	(44,313)	Other comprehensive income (loss), before tax	(46,860)	2,547	(44,313)	
Income tax (expense) benefit	9,841	(535)	9,306					
Other comprehensive income (loss), net of tax	(37,019)	2,012	(35,007)	Other comprehensive income (loss), net of tax	(37,019)	2,012	(35,007)	

Balance, December 31, 2022	Balance, December 31, 2022	\$ (36,657)	\$ 4,943	\$ (31,714)
Other comprehensive income (loss), before reclassifications	Other comprehensive income (loss), before reclassifications		10,087	(640)
Amounts reclassified from accumulated other comprehensive income (loss)	Amounts reclassified from accumulated other comprehensive income (loss)		9,148	4,129
Other comprehensive income (loss), before tax	Other comprehensive income (loss), before tax		19,235	3,489
Income tax expense				22,724
Other comprehensive income (loss), net of tax	Other comprehensive income (loss), net of tax		15,196	2,756
<b>Balance, December 31, 2023</b>	<b>Balance, December 31, 2023</b>		\$ (21,461)	\$ 7,699
				\$ (13,762)

(1) The pre-tax amounts reclassified from accumulated other comprehensive income (loss) are included in gains (losses) on sale of investment securities 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. See Note 13.

### (13) Employee Benefit Plans

**Employee benefits** charged to operating expenses are summarized in the table below for the years ended December 31, 2022, 2021, and 2020 are December 31, as follows: indicated.

(in thousands)	(in thousands)	2022	2021	2020	(in thousands)	2023	2022	2021
Payroll taxes	Payroll taxes	\$ 1,443	\$ 1,403	\$ 1,273				
Medical plans	Medical plans	1,771	1,860	1,854				
401(k) match and profit sharing	401(k) match and profit sharing	1,573	1,829	1,586				
Periodic pension cost	Periodic pension cost	1,608	1,796	1,614				
Other	Other	50	52	59				
<b>Total employee benefits</b>	<b>Total employee benefits</b>	<b>\$ 6,445</b>	<b>\$ 6,940</b>	<b>\$ 6,386</b>				

The Company's profit-sharing plan includes a matching 401(k) portion, in which the Company matches the first three percent 3% of eligible employee contributions. The Company made annual contributions for the discretionary portion in an amount up to six percent 6% of income before income taxes and before contributions to the profit-sharing and pension plans

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020

for all participants, limited to the maximum amount deductible for federal income tax purposes, for each of the years shown. In addition, employees were able to make additional tax-deferred contributions.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

**Other Plans**

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

As of December 31, 2022 December 31, 2023, the accrued liability was \$1.7 million \$1.8 million and the expense for this plan was \$0.4 million \$39,000 and \$0.4 million for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, 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 new 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. The Company made did not elect to make a pension contribution of \$1.0 million on April 1, 2022, in 2023.

Effective July 1, 2017, the Company amended the pension plan to effectuate a "soft freeze" such that any 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 not be eligible to be an active member and will not be entitled to accrue any benefits under the plan.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

Obligations and Funded Status at December 31, 2022 December 31, 2023 and December 31, 2021 consist of the following: 2022

(in thousands)	(in thousands)	2022	2021	(in thousands)	2023	2022
<b>Change in projected benefit obligation:</b>	<b>Change in projected benefit obligation:</b>					
Balance, January 1	Balance, January 1	\$38,661	\$36,957			
Balance, January 1						
Service cost	Service cost	1,491	1,692			
Interest cost	Interest cost	1,174	1,072			
Actuarial loss		(11,301)	(232)			

Actuarial loss (gain)			
Benefits paid	Benefits paid	(894)	(828)
Balance, December 31,	Balance, December 31,	\$29,131	\$38,661
<b>Change in plan assets:</b>			
Fair value, January 1			
Fair value, January 1			
Fair value, January 1	Fair value, January 1	\$37,416	\$30,084
Actual return on plan assets	Actual return on plan assets	(6,475)	7,278
Employer contribution	Employer contribution	1,000	1,000
Expenses paid	Expenses paid	(115)	(118)
Benefits paid	Benefits paid	(894)	(828)
Fair value, December 31,	Fair value, December 31,	\$30,932	\$37,416
<b>Funded status at end of year</b>	<b>Funded status at end of year</b>	<b>\$ 1,801</b>	<b>\$ (1,245)</b>
<b>Accumulated benefit obligation</b>			
Accumulated benefit obligation			
Amounts recognized in the statement of financial position consist of the following:	Amounts recognized in the statement of financial position consist of the following:	\$24,265	\$30,690
Amounts recognized in the statement of financial position consist of the following:			
Amounts recognized in the statement of financial position consist of the following:			
(in thousands)			
(in thousands)			
(in thousands)	(in thousands)	2022	2021
		2023	
Non-current assets	Non-current assets	\$ 1,801	\$ —
Current liabilities	Current liabilities	—	—
Non-current liabilities	Non-current liabilities	—	(1,245)
<b>Net asset (liability) at end of year</b>	<b>Net asset (liability) at end of year</b>	<b>\$ 1,801</b>	<b>\$ (1,245)</b>

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

The following items are components of net pension cost for the years ended December 31, 2022, 2021, and 2020 are December 31, as follows: indicated:

(in thousands)	(in thousands)	2022	2021	2020	(in thousands)	2023	2022	2021
Service cost - benefits earned during the year	Service cost - benefits earned during the year	\$1,491	\$1,692	\$1,614				
Interest costs on projected benefit obligations (a)	Interest costs on projected benefit obligations (a)	1,174	1,072	1,127				
Expected return on plan assets (a)	Expected return on plan assets (a)	(2,282)	(1,843)	(1,598)				
Expected administrative expenses (a)	Expected administrative expenses (a)	118	104	110				
Amortization of prior service cost (a)	Amortization of prior service cost (a)	—	—	50				
Amortization of unrecognized net loss (a)	Amortization of unrecognized net loss (a)	—	367	164				
Amortization of net (gain) loss (a)	Amortization of net (gain) loss (a)							
<b>Net periodic pension cost</b>	<b>Net periodic pension cost</b>	<b>\$ 501</b>	<b>\$ 1,392</b>	<b>\$ 1,467</b>				

(a) The components of net periodic pension cost other than the service cost component are included in other non-interest expense.

Net periodic pension benefit costs 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 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

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020**

the net actuarial gain or loss amount, which is recognized in other comprehensive income. The net actuarial gain or loss in

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021**

excess of a 10% corridor is amortized in net periodic benefit cost over the average remaining service period of active participants in the Plans. The prior service credit is amortized over the average remaining service period to full eligibility for participating employees expected to receive benefits.

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income (loss) income at December 31, 2022 December 31, 2023 and 2021 2022 are shown below, including amounts recognized in other comprehensive income during the periods. All amounts are shown on a pre-tax basis.

(in thousands)	2022	2021
Prior service costs	\$ —	\$ —
Net accumulated actuarial net loss	6,256	3,710
Accumulated other comprehensive loss	6,256	3,710
Net periodic benefit cost in excess of cumulative employer contributions	(4,455)	(4,955)
<b>Net amount recognized at December 31, balance sheet</b>	<b>\$ 1,801</b>	<b>\$ (1,245)</b>
Net actuarial gain (loss) arising during period	\$ 2,547	\$ 5,653
Prior service cost amortization	—	—
Amortization of net actuarial loss	—	367
<b>Total recognized in other comprehensive income (loss)</b>	<b>\$ 2,547</b>	<b>\$ 6,020</b>
<b>Total recognized in net periodic pension cost and other comprehensive income (loss) income</b>	<b>\$ (2,046)</b>	<b>\$ (4,628)</b>

(in thousands)	2023	2022
Net accumulated actuarial net gain	\$ 9,745	\$ 6,256
Accumulated other comprehensive gain	9,745	6,256
Net periodic benefit cost in excess of cumulative employer contributions	(4,126)	(4,455)
<b>Net amount recognized at December 31, balance sheet</b>	<b>\$ 5,619</b>	<b>\$ 1,801</b>
Net actuarial gain arising during period	\$ 4,129	\$ 2,547
Amortization of net actuarial gain	(640)	—
<b>Total recognized in other comprehensive income (loss)</b>	<b>\$ 3,489</b>	<b>\$ 2,547</b>
<b>Total recognized in net periodic pension cost and other comprehensive income (loss)</b>	<b>\$ (3,818)</b>	<b>\$ (2,046)</b>

The 2022 actuarial gain was primarily driven by the increase in the year-over-year discount rates, which resulted in a gain for the plan. The 2021 actuarial gain was primarily the result of the actual return on assets exceeding the expected asset return and updated assumptions.

Assumptions utilized to determine benefit obligations as of December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021 and to determine pension expense for the years then ended are as follows:

	2022	2021	2020	2023	2022	2021
	2023			2023	2022	2021
Determination of benefit obligation at year end:	Determination of benefit obligation at year end:					
Discount rate	Discount rate	5.10 %	3.10 %	2.80 %	4.95 %	5.10 %
Annual rate of compensation increase	Annual rate of compensation increase	4.50 %	4.50 %	4.50 %	4.50 %	4.50 %
Determination of pension expense for year ended:	Determination of pension expense for year ended:					
Discount rate for the service cost	Discount rate for the service cost	3.10 %	2.80 %	3.45 %		
Discount rate for the service cost				5.10 %	3.10 %	2.80 %
Discount rate for the service cost						

Annual rate of compensation increase	Annual rate of compensation increase	4.50 %	4.50 %	4.00 %	4.50 %	4.50 %	4.50 %
Expected long-term rate of return on plan assets	Expected long-term rate of return on plan assets	6.75 %	6.75 %	6.75 %	6.75 %	6.75 %	6.75 %

The assumed overall expected long-term rate of return on pension plan assets used in calculating 2022 2023 pension expense was 6.75%. Determination of the plan's rate of return is based upon historical returns for equities and fixed income indexes. During the past five years, the Company's plan assets have experienced the following annual returns:

(in thousands)	(in thousands)	2022	2021	2020	2019	2018	(in thousands)	2023	2022	2021	2020	2019
<b>Plan</b>	<b>Plan</b>											
<b>Assets:</b>	<b>Assets:</b>											
Actual rate of return	Actual rate of return											
		(17.0)%	22.1%	19.7%	25.8%	(6.2)%						
Actual rate of return												
Actual rate of return								21.1%	(17.0)%	22.1%	19.7%	25.8%

The rate used in plan calculations may be adjusted by management for current trends in the economic environment. With a traditional investment mix of over half of the plan's investments in equities, the actual return for any one plan year may

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020

fluctuate significantly with changes in the stock market. Primarily due to a decrease in the discount rate used in the actuarial calculation of plan income, the Company expects to incur \$0.2 million \$0.4 million of income in 2023 2024 compared to \$0.5 million \$0.3 million of expense income in 2022 2023.

#### Plan Assets

The investment policy of the pension plan is designed for growth in value while minimizing risk to the overall portfolio. The Company diversifies the assets through investments in domestic fixed income securities and domestic and international

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

equity securities. The assets are readily marketable and can be sold to fund benefit payment obligations as they become payable. The Company regularly reviews its policies on the investment mix and may make changes depending on economic conditions and perceived investment mix.

The fair value of the Company's pension plan assets at December 31, 2022 December 31, 2023 and 2021 2022 by asset category was as follows:

(in thousands)	Fair Value Measurements			Fair Value Measurements		
	(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets	Other Observable Inputs	Significant Unobservable Inputs	
December 31, 2023		(Level 1)	(Level 2)	(Level 3)		

		Fair Value Measurements				
		Quoted Prices in Active Markets				
		for Identical Fair Value	Other Assets	Significant Inputs	Observable Inputs	Unobservable Inputs
(in thousands)			(Level 1)	(Level 2)	(Level 3)	
Mutual funds						
Mutual funds						
Mutual funds						
<b>Total</b>						
<b>December 31, 2022</b>	<b>December 31, 2022</b>					
Cash equivalents						
Cash equivalents						
Cash equivalents		Cash equivalents	\$ 1,772	\$ 1,772	\$ —	\$ —
U.S. government agency obligations		U.S. government agency obligations	491	—	491	—
Equity securities		Equity securities	1,518	1,518	—	—
Mutual funds			27,151	27,151	—	—
<b>Total</b>			\$30,932	\$30,441	\$ 491	\$ —
<b>December 31, 2021</b>						
Cash equivalents			\$ 1,449	\$ 1,449	\$ —	\$ —
Corporate bonds			303	—	303	—
Equity securities						
Equity securities		Equity securities	1,774	1,774	—	—
Mutual funds		Mutual funds	33,890	33,890	—	—
<b>Total</b>	<b>Total</b>		\$37,416	\$37,113	\$ 303	\$ —

The following future benefit payments are expected to be paid:

Year	Year	Pension benefits	Year	Pension benefits
(in thousands)	(in thousands)			
2023		\$1,037		
2024				
2024	2024	1,038		

2025	2025	1,104
2026	2026	1,190
2027	2027	1,340
2028		
2028 to 2032	2028 to 2032	8,873

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020**

**(14) Earnings per Share**

**Stock Dividend**

On **July 1, 2022** **July 1, 2023**, the Company paid a stock dividend of four percent to common shareholders of record at the close of business on **June 15, 2022** **June 15, 2023**. For all periods presented, share information, including basic and diluted earnings per share, has been adjusted retroactively to reflect this change.

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

**Presented below is The following table displays a summary reconciliation of the components information used to calculate in calculating basic and diluted earnings per common share for the years ended December 31, 2023, 2022, and 2021, which have been restated for all stock dividends. Diluted earnings per common share incorporates the potential impact of contingently issuable shares, including awards which require future service as a condition of delivery of the underlying common stock.**

(dollars in thousands, except per share data)	2022	2021	2020
Net income available to shareholders	\$ 20,751	\$ 22,517	\$ 14,293
Average shares outstanding	6,792,312	6,877,402	7,004,629
Basic earnings per share	\$ 3.06	\$ 3.27	\$ 2.04
Diluted earnings per share	\$ 3.06	\$ 3.27	\$ 2.04

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021**

(dollars in thousands, except per share data)	2023	2022	2021
Net income available to common shareholders	\$ 956	\$ 20,751	\$ 22,517
Weighted average common shares outstanding	7,039,323	7,063,054	7,148,144
Effect of dilutive equity-based awards	—	—	—
Weighted average dilutive common shares outstanding	7,039,323	7,063,054	7,148,144
Basic earnings per share	\$ 0.14	\$ 2.94	\$ 3.15
Diluted earnings per share	\$ 0.14	\$ 2.94	\$ 3.15

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

**Repurchase Program**

**The Pursuant to the Company's 2019 Repurchase Plan, was as amended, during the second quarter of 2021 to authorize the purchase of up to \$5.0 million in market value of the Company's common stock. Management was given discretion to determine the number and pricing of the shares to be purchased by the Company from time to time, as well as the timing of any such purchases.**

The Company repurchased 108,724 common did not repurchase any shares under the plan during the year ended December 31, 2022, at an average cost of \$26.60 per share totaling \$2.9 million. As of December 31, 2022 December 31, 2023, \$2.1 million \$5.0 million remained available for share repurchase repurchases pursuant to that

authorization, the plan.

## (15) Capital Requirements

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.

### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020

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 December 31, 2022 December 31, 2023, 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 December 31, 2022 December 31, 2023 and 2021. 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%.

### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

Because the Bank had less than \$15 billion in total consolidated assets as of December 31, 2009, the Company is allowed to continue to classifying its trust preferred securities, all of which were issued prior to May 19, 2010, as Tier 1 capital.

### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020

Under the Basel III Capital Rules, requirements, at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, 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 of years indicated:

	Minimum Capital Required - Basel III Actual	Required to be Considered Well- Capitalized Fully Phased-In
--	---------------------------------------------------	----------------------------------------------------------------------



December 31, 2022											
December 31, 2022											
Total	Total										
Capital (to Capital											
risk- (to risk-											
weighted weighted											
assets): assets):											
Total Capital (to risk-weighted assets):											
Total Capital (to risk-weighted assets):											
Company	Company										
Company	Company										
Company	Company	\$210,726	14.79 %	\$149,640	10.50 %	\$ —	N.A%	\$222,873	13.85	13.85	%
Bank	Bank	210,148	14.78 %	149,339	10.50 %	142,228	10.00 %	Bank	221,066	13.78	13.78 %
Tier 1	Tier 1										
Capital (to Capital											
risk- (to risk-											
weighted weighted											
assets): assets):											
Company	Company	\$193,663	13.59 %	\$121,137	8.50 %	\$ —	N.A%				
Company	Company										
Bank	Bank	193,085	13.58 %	120,894	8.50 %	113,782	8.00 %	Bank	205,318	12.80	12.80 %
Common	Common										
Equity	Equity										
Tier 1	Tier 1										
Capital (to Capital											
risk- (to risk-											
weighted weighted											
assets)	assets)										
Company	Company										
Company	Company										
Company	Company	\$145,663	10.22 %	\$ 99,760	7.00 %	\$ —	N.A%	\$159,125	9.89	9.89	%
Bank	Bank	193,085	13.58 %	99,559	7.00 %	92,448	6.50 %	Bank	205,318	12.80	12.80 %
Tier 1	Tier 1										
leverage	leverage										
ratio:	ratio:										
Company	Company	\$193,663	11.01 %	\$ 70,342	4.00 %	\$ —	N.A%				
Company	Company										
Bank	Bank	193,085	11.04 %	69,959	4.00 %	87,449	5.00 %	Bank	205,318	10.85	10.85 %
10.76 %	10.76 %										
\$ 74,936	\$ 74,936										
4.00 %	4.00 %										

#### (16) 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.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

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

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020**

fair value of assets and liabilities as follows. During the year ended **December 31, 2022** **December 31, 2023** there were no transfers into or out of Levels 1-3.

The fair value hierarchy uses three levels of inputs to measure the fair value of assets and liabilities 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 nonrecurring 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 *Financial Instruments Assets and Certain of Our Nonfinancial Assets 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 which 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 independent verification to another pricing source by management each quarter for reasonableness.

**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 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 **committed commitment** in forward sale **agreements agreement** loans is the price at which they could be sold in the principal market at the measurement date, therefore the Company classifies as **Level level 2**.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020 2021**

**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.

#### **Mortgage Servicing Rights**

The fair value of **mortgage servicing rights** **MSRs** is based on the discounted value of estimated future cash flows utilizing contractual cash flows, servicing rates, 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. In the fourth quarter of 2023, the Company recognized a \$1.1 million **mortgage servicing rights** valuation write-down upon accepting a letter of intent to sell the Company's servicing portfolio during the first quarter of 2024. The Company classifies its servicing rights as Level 3.

#### **HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

(in thousands)	Fair Value Measurements				Fair Value Measurements (Level 3)
	(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets	Other Observable Inputs (Level 1)	
<b>December 31, 2023</b>					
<b>Assets:</b>					
Assets:					
Assets:					
U.S. Treasury					
U.S. Treasury					
U.S. Treasury					
U.S.					
government and federal agency obligations					
U.S. government- sponsored enterprises					
Obligations of states and political subdivisions					
Mortgage- backed securities					
Other debt securities					
Bank-issued trust preferred securities					
Equity securities					

Interest rate lock commitments		Fair Value Measurements		
		Quoted Prices in Active Markets	for Identical Assets	Other Observable Inputs
		Significant Unobservable Inputs	(Level 1)	(Level 2)
(in thousands)	Fair Value		(Level 1)	(Level 2)
Loans held for sale				
Loans held for sale				
Loans held for sale				
Mortgage servicing rights				
<b>Total</b>				
<b>Liabilities:</b>				
Interest rate lock commitments				
Interest rate lock commitments				
Interest rate lock commitments				
Forward sale commitments				
<b>Total</b>				
<b>December 31, 2022</b>				
<b>December 31, 2022</b>				
<b>December 31, 2022</b>	<b>December 31, 2022</b>			
<b>Assets:</b>	<b>Assets:</b>			
<b>Assets:</b>				
U.S. Treasury				
U.S. Treasury				
U.S. Treasury	U.S. Treasury	\$ 2,152	\$ 2,152	\$ —
U.S. government and federal agency obligations	U.S. government and federal agency obligations	559	—	559
U.S. government-sponsored enterprises	U.S. government-sponsored enterprises	23,777	—	23,777
Obligations of states and political subdivisions	Obligations of states and political subdivisions	109,440	—	109,440
Mortgage-backed securities	Mortgage-backed securities	102,699	—	102,699

Other debt securities	Other debt securities	10,943	—	10,943	—
Bank-issued trust preferred securities	Bank-issued trust preferred securities	1,177	—	1,177	—
Equity securities	Equity securities	46	46	—	—
Interest rate lock commitments	Interest rate lock commitments	20	—	—	20
Forward sale commitments	Forward sale commitments	3	—	3	—
Loans held for sale	Loans held for sale	591	—	591	—
Mortgage servicing rights	Mortgage servicing rights	2,899	—	—	2,899
<b>Total</b>	<b>Total</b>	<b>\$254,306</b>	<b>\$2,198</b>	<b>\$249,189</b>	<b>\$ 2,919</b>

<b>Liabilities:</b>	<b>Liabilities:</b>				
Interest rate lock commitments	Interest rate lock commitments	\$ 18	\$ —	\$ —	\$ 18
Interest rate lock commitments	Interest rate lock commitments				
Forward sale commitments	Forward sale commitments	3	—	3	—
<b>Total</b>	<b>Total</b>	<b>\$ 21</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 18</b>

#### December 31, 2021

<b>Assets:</b>					
U.S. Treasury	\$ 3,917	\$3,917	\$ —	\$ —	\$ —
U.S. government and federal agency obligations	1,319	—	1,319	—	—
U.S. government-sponsored enterprises	26,372	—	26,372	—	—
Obligations of states and political subdivisions	129,224	—	129,224	—	—
Mortgage-backed securities	136,466	—	136,466	—	—
Other debt securities	12,284	—	12,284	—	—
Bank-issued trust preferred securities	1,288	—	1,288	—	—
Equity securities	60	60	—	—	—
Interest rate lock commitments	312	—	—	312	—
Forward sale commitments	12	—	12	—	—
Loans held for sale	2,249	—	2,249	—	—
Mortgage servicing rights	2,659	—	—	2,659	—
<b>Total</b>	<b>\$316,162</b>	<b>\$3,977</b>	<b>\$309,214</b>	<b>\$ 2,971</b>	
<b>Liabilities:</b>					
Interest rate lock commitments	\$ 26	\$ —	\$ —	\$ 26	—
<b>Total</b>	<b>\$ 26</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 26</b>	

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

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

	Fair Value	Fair Value				
	Measurements	Measurements				
	Using	Using				
	Significant	Significant				
	Unobservable	Unobservable				
	Inputs	Inputs				
	(Level 3)	(Level 3)				
	Mortgage	Interest Rate				
	Servicing	Lock				
	Rights	Commitments	(in thousands)			
<b>Balance at December 31, 2020</b>	\$ 2,445	\$ —	(in thousands)			
<b>Balance at December 31, 2021</b>						
Total (losses) or gains (realized/unrealized): (realized/unrealized):						
Included in earnings	Included in earnings	(186)	—			
Included in other comprehensive income		—	—			
Purchases		—	—			
Sales		—	—			
Issues		400	286			
Settlements		—	—			
<b>Balance at December 31, 2021</b>	\$ 2,659	\$ 286	(in thousands)			
Total (losses) or gains (realized/unrealized):						
Included in earnings						
Included in earnings	Included in earnings	176	(24)			
Included in other comprehensive income	Included in other comprehensive income	—	—			
Purchases	Purchases	—	—			
Sales	Sales	—	(407)			
Issues	Issues	64	147			
Settlements	Settlements	—	—			
<b>Balance at December 31, 2022</b>	<b>Balance at December 31, 2022</b>	<b>\$ 2,899</b>	<b>\$ 2</b>	(in thousands)		
Total (losses) or gains (realized/unrealized):						
Included in earnings						
Included in earnings						
Included in earnings						

Included in other comprehensive income
Purchases
Sales
Issues
Settlements
<b>Balance at December 31, 2023</b>

**Valuation Methods** **methods for Instruments Measured instruments measured at Fair Value fair value on a Nonrecurring Basis nonrecurring basis**

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

**Collateral-Dependent Impaired Loans loans**

While the overall loan portfolio is not carried at fair value, the Company periodically records **nonrecurring non-recurring** adjustments to the carrying value of **impaired loans** based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral dependent loans when establishing the allowance for **loan credit losses**. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In determining the fair 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 appraisals may be discounted based on the Company's historical knowledge, changes in market conditions from the time of appraisal, or other information available. 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. Fair values of all loan collateral are regularly reviewed by the senior loan committee. Because many of these inputs are not observable, the measurements are classified as Level 3. As of December 31, 2023, the Company identified \$5.1 million in collateral-dependent loans that had \$1.5 million specific allowances for losses. Related to these loans, there were \$0.3 million in charge-offs recorded during the year ended December 31, 2023. As of December 31, 2022, the Company identified \$17.7 million \$17.7

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021**

million in collateral-dependent **impaired loans** that had no specific allowances for losses. Related to these loans, there were \$0.1 million in charge-offs recorded during the year ended December 31, 2022. As of December 31, 2021, the Company

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020**

identified \$24.2 million in collateral-dependent **impaired loans** that had specific allowances for losses aggregating \$2.8 million. Related to these loans, there were \$0.1 million in charge-offs recorded during the year ended December 31, 2021.

**Other Real Estate Owned and Repossessed Assets**

Other real estate owned ("OREO") and repossessed assets consist 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 state certified** appraisers. Like **impaired loans, appraisals** 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.

Fair Value Measurements Using

Fair Value Measurements Using

(in thousands)		Quoted Prices in Active Markets for Identical				
		Total	Fair Value	Other Observable	Significant Unobservable	Total Gains
		(in thousands)	(Level 1)	(Level 2)	(Level 3)	(Losses)*
<b>December</b>						
<b>31, 2023</b>						
<b>Assets:</b>						
<b>Assets:</b>						
<b>Assets:</b>						
Collateral dependent loans:						
Collateral dependent loans:						
Collateral dependent loans:						
Commercial, financial, & agricultural						
Commercial, financial, & agricultural						
Commercial, financial, & agricultural						
Real estate construction						
- residential						
Real estate mortgage - residential						
Real estate mortgage - residential						
Real estate mortgage - residential						
Real estate mortgage - commercial						
Installment and other consumer						
<b>Total</b>						
Other real estate and repossessed assets						
<b>December 31, 2022</b>						
<b>December 31, 2022</b>						
<b>December 31, 2022</b>						
<b>Assets:</b>						
<b>Assets:</b>						
<b>Assets:</b>						
Collateral dependent loans:						
Collateral dependent loans:						
Collateral dependent loans:						

Fair Value Measurements Using

		Quoted Prices in Active Markets				
		for	Other	Significant		
(in thousands)		Total	Identical	Observable	Unobservable	Total
		Fair Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Gains (Losses)*
<b>December 31, 2022</b>						
<b>Assets:</b>						
Collateral dependent impaired loans:						
Real estate mortgage - commercial						
Real estate mortgage - commercial						
Real estate mortgage - commercial	Real estate mortgage - commercial	\$ 17,664	\$ —	\$ —	\$ 17,664	\$ (51)
Installment and other consumer	Installment and other consumer	—	—	—	—	(40)
<b>Total</b>	<b>Total</b>	<b>\$ 17,664</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 17,664</b>	<b>\$ (91)</b>
Other real estate and reposessed assets	Other real estate and reposessed assets	\$ 8,795	\$ —	\$ —	\$ 8,795	\$ 233

  

		Quoted Prices in Active Markets				
		for	Other	Significant		
(in thousands)		Total	Identical	Observable	Unobservable	Total
		Fair Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Gains (Losses)*
<b>December 31, 2021</b>						
<b>Assets:</b>						
Collateral dependent impaired loans:						
Commercial, financial, & agricultural	Commercial, financial, & agricultural	\$ —	\$ —	\$ —	\$ —	\$ (46)
Real estate mortgage - residential	Real estate mortgage - residential	264	—	—	264	(22)
Real estate mortgage - commercial	Real estate mortgage - commercial	21,133	—	—	21,133	(43)
Installment and other consumer	Installment and other consumer	—	—	—	—	(7)
<b>Total</b>		<b>\$ 21,397</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 21,397</b>	<b>\$ (118)</b>
Other real estate and reposessed assets	Other real estate and reposessed assets	\$ 10,525	\$ —	\$ —	\$ 10,525	\$ (935)

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

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

#### (17) 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 and securities purchased under agreements to resell, interest-earning deposits with banks, and cash and due from banks approximate fair value. Federal funds sold and securities purchased under agreements to resell 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~~ cost, which is equal to fair value.

#### **Cash Surrender Value – Life Insurance**

The fair value of ~~Bank-owned~~ Bank-owned life insurance (BOLI) approximates the carrying amount. Upon liquidation of these investments, the Company would receive the cash surrender value which equals the carrying amount.

#### **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.

#### **Deposits**

The fair value of deposits with no stated maturity, such as non-interest-bearing demand, Negotiable Order of Withdrawal accounts, savings accounts, and money market accounts, 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.

### **HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, ~~2021~~, and 2020 ~~2021~~

#### **Operating Lease Liabilities**

The fair value of 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.

A summary of the carrying amounts and fair values of the Company's financial instruments at ~~December 31, 2022~~ December 31, 2023 and ~~2021~~ 2022 is as follows:

		December 31, 2022			December 31, 2023			
		Fair Value Measurements						
December 31, 2022	December 31, 2023	Quoted	Prices	in Active	Net	December 31, 2023		
		Markets for	Other	Significant	Identical	Observable	Unobservable	

							Fair Value Measurements				Fair Value Measurements		
											Quoted Prices in Active Markets for Identical Other Net		
							December 31, 2023				for Identical	Other Observable	Significant Unobservable
							(in thousands)	Carrying amount	Fair value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	
<b>Assets:</b>	<b>Assets:</b>												
Cash and due from banks	Cash and due from banks		\$ 18,661	\$ 18,661	\$ 18,661	\$ —	\$ —						
Cash and due from banks	Cash and due from banks												
Federal funds sold and overnight interest-bearing deposits	Federal funds sold and overnight interest-bearing deposits		65,059	65,059	65,059	—	—						
Certificates of deposit in other banks	Certificates of deposit in other banks		2,955	2,955	2,955	—	—						
Available for sale securities	Available for sale securities												
Available for sale securities	Available for sale securities												
Other investment securities	Other investment securities		250,747	250,747	2,152	248,595	—						
Loans, net	Loans, net		1,505,664	1,389,018	—	—	1,389,018						
Loans held for sale	Loans held for sale		591	591	—	591	—						
Cash surrender value - life insurance	Cash surrender value - life insurance		2,567	2,567	—	2,567	—						
Interest rate lock commitments	Interest rate lock commitments		20	20	—	—	20						
Forward sale commitments	Forward sale commitments		3	3	—	3	—						
Accrued interest receivable	Accrued interest receivable												
Accrued interest receivable	Accrued interest receivable												
Accrued interest receivable	Accrued interest receivable												
<b>Total</b>	<b>Total</b>		\$1,860,573	\$1,743,927	\$ 96,826	\$258,063	\$1,389,038						
<b>Liabilities:</b>	<b>Liabilities:</b>												
Deposits:	Deposits:												
Deposits:	Deposits:												
Deposits:	Deposits:												

Non-interest bearing demand						
Non-interest bearing demand						
Non-interest bearing demand	Non-interest bearing demand	\$ 453,443	\$ 453,443	\$ 453,443	\$ —	\$ —
Savings, interest checking and money market	Savings, interest checking and money market	923,602	923,602	923,602	—	—
Time deposits	Time deposits	255,034	250,433	—	—	250,433
Federal funds purchased and securities sold under agreements to repurchase						
		5,187	5,187	5,187	—	—
Federal Home Loan Bank advances and other borrowings						
Federal Home Loan Bank advances and other borrowings						
Federal Home Loan Bank advances and other borrowings	Federal Home Loan Bank advances and other borrowings	98,000	98,000	—	98,000	—
Subordinated notes	Subordinated notes	49,486	39,197	—	39,197	—
Interest rate lock commitments	Interest rate lock commitments	18	18	—	—	18
Forward sale commitments	Forward sale commitments	3	3	—	3	—
Accrued interest payable	Accrued interest payable	902	902	902	—	—
Total	Total	\$1,785,675	\$1,770,785	\$1,383,134	\$137,200	\$ 250,451

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

December 31, 2021						
Fair Value Measurements						
December 31, 2021	Quoted Prices in Active Markets for Identical			Net		
	Observable	Unobservable	Other	Significant		
	Identical	Observable	Unobservable	Other	Significant	
December 31, 2021						

Fair Value Measurements										December 31, 2022		Fair Value Measurements	
										Quoted Prices in Active Markets for Identical Observable Inputs		Net Significant Unobservable Inputs	
December 31, 2022										December 31, 2022			
(in thousands)	(in thousands)	Carrying amount	Fair value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	(in thousands)	Carrying amount	Fair value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	
<b>Assets:</b>													
Cash and due from banks													
Cash and due from banks	Cash and due from banks	\$ 17,287	\$ 17,287	\$ 17,287	—	—							
Federal funds sold and overnight interest-bearing deposits	Federal funds sold and overnight interest-bearing deposits	142,622	142,622	142,622	—	—							
Certificates of deposit in other banks	Certificates of deposit in other banks	5,193	5,193	5,193	—	—							
Available-for-sale securities	Available-for-sale securities	310,870	310,870	3,917	306,953	—							
Other investment securities	Other investment securities	5,408	5,408	60	5,348	—							
Loans, net	Loans, net	1,285,230	1,308,539	—	—	1,308,539							
Loans held for sale	Loans held for sale	2,249	2,249	—	2,249	—							
Cash surrender value - life insurance	Cash surrender value - life insurance	2,509	2,509	—	2,509	—							
Interest rate lock commitments	Interest rate lock commitments	312	312	—	—	312							
Forward sale commitments	Forward sale commitments	12	12	—	12	—							
Accrued interest receivable	Accrued interest receivable	6,621	6,621	6,621	—	—							
<b>Total</b>	<b>Total</b>	<b>\$1,778,313</b>	<b>\$1,801,622</b>	<b>\$ 175,700</b>	<b>\$317,071</b>	<b>\$1,308,851</b>							
<b>Liabilities:</b>													
Deposits:													
Deposits:	Deposits:												
Non-interest bearing demand	Non-interest bearing demand												

Non-interest bearing demand						
Non-interest bearing demand	Non-interest bearing demand	\$ 453,066	\$ 453,066	\$ 453,066	\$ —	\$ —
Savings, interest checking and money market	Savings, interest checking and money market	818,358	818,358	818,358	—	—
Time deposits	Time deposits	245,396	246,025	—	—	246,025
Federal funds purchased and securities sold under agreements to repurchase	Federal funds purchased and securities sold under agreements to repurchase	23,829	23,829	23,829	—	—
Federal Home Loan Bank advances and other borrowings	Federal Home Loan Bank advances and other borrowings	77,418	78,152	—	78,152	—
Subordinated notes	Subordinated notes	49,486	42,908	—	42,908	—
Interest rate lock commitments	Interest rate lock commitments	26	26	—	—	26
Forward sale commitments						
Accrued interest payable	Accrued interest payable	282	282	282	—	—
Total	Total	\$1,667,861	\$1,662,646	\$1,295,535	\$121,060	\$ 246,051

#### 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.

#### HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021

#### 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

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2022, 2021, and 2020**

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.

**(18) Commitments and Contingencies**

The Company issues financial instruments with off-balance-sheet risk in the normal course of business in 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 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. At **December 31, 2022** **December 31, 2023**, no amounts have been accrued for any estimated losses for these financial instruments.

The contractual amount of off-balance-sheet financial instruments as of **December 31, 2022** **December 31, 2023** and **2021** **2022** is as follows:

(in thousands)	(in thousands)	2022	2021	(in thousands)	2023	2022
Commitments	Commitments					
to extend credit	to extend credit	\$388,264	\$396,958			
Interest rate lock commitments	Interest rate lock commitments	6,331	16,161			
Forward sale commitments	Forward sale commitments	576	2,199			
Standby letters of credit	Standby letters of credit	49,740	35,514			
<b>Total</b>	<b>Total</b>	<b>444,911</b>	<b>450,832</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 agreements to extend credit to a customer that has an interest rate lock and are considered derivative instruments.

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 range from one month to five years at **December 31, 2022** **December 31, 2023**.

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, and 2021**

**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

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**  
December 31, 2022, 2021, and 2020

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 amount can be estimated.

**(19) Condensed Financial Information of the Parent Company Only**

Following are the condensed financial statements of Hawthorn Bancshares, Inc. (Parent only) as of and for the years indicated:

**Condensed Balance Sheets**

	December 31,	
(in thousands)	2022	2021
<b>Assets</b>		
Cash and due from bank subsidiaries	\$ 2,464	\$ 1,805
Investment in bank-issued trust preferred securities	1,177	1,288
Investment in subsidiaries	172,752	197,243
Deferred tax asset	49	589
Other assets	3,490	1,238
<b>Total assets</b>	<b>\$ 179,932</b>	<b>\$ 202,163</b>
<b>Liabilities and Stockholders' Equity</b>		
Subordinated notes	\$ 49,486	\$ 49,486
Other liabilities	3,035	3,721
Stockholders' equity	127,411	148,956
<b>Total liabilities and stockholders' equity</b>	<b>\$ 179,932</b>	<b>\$ 202,163</b>

**Condensed Statements of Income**

	For the Years Ended December 31,		
(in thousands)	2022	2021	2020
<b>Income</b>			
Interest and dividends received from subsidiaries	\$ 11,497	\$ 8,512	\$ 4,946
Other	1,108	404	—
<b>Total income</b>	<b>12,605</b>	<b>8,916</b>	<b>4,946</b>
<b>Expenses</b>			
Interest on subordinated notes	2,072	1,227	1,527
Other	3,191	3,200	2,692
<b>Total expenses</b>	<b>5,263</b>	<b>4,427</b>	<b>4,219</b>
Income before income tax benefit and equity in undistributed income of subsidiaries	7,342	4,489	727
Income tax benefit	859	837	876
Equity in undistributed income of subsidiaries	12,550	17,191	12,690
<b>Net income</b>	<b>\$ 20,751</b>	<b>\$ 22,517</b>	<b>\$ 14,293</b>

	December 31,	
(in thousands)	2023	2022
<b>Assets</b>		
Cash and due from bank subsidiaries	\$ 6,807	\$ 2,464

Investment in bank-issued trust preferred securities	1,169	1,177
Investment in subsidiaries	175,273	172,752
Deferred tax asset	—	49
Other assets	6,187	3,490
<b>Total assets</b>	<b>\$ 189,436</b>	<b>\$ 179,932</b>
<b>Liabilities and Stockholders' Equity</b>		
Subordinated notes	\$ 49,486	\$ 49,486
Deferred tax liability	735	—
Other liabilities	3,130	3,035
Stockholders' equity	136,085	127,411
<b>Total liabilities and stockholders' equity</b>	<b>\$ 189,436</b>	<b>\$ 179,932</b>

**HAWTHORN BANCSHARES, INC.  
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2023, 2022, 2021, and 2020

**Condensed Statements of Income**

(in thousands)	For the Years Ended December 31,		
	2023	2022	2021
<b>Income</b>			
Interest and dividends received from subsidiaries	\$ 10,158	\$ 11,497	\$ 8,512
Other	1,390	1,108	404
<b>Total income</b>	<b>11,548</b>	<b>12,605</b>	<b>8,916</b>
<b>Expenses</b>			
Interest on subordinated notes	3,774	2,072	1,227
Other	2,771	3,191	3,200
<b>Total expenses</b>	<b>6,545</b>	<b>5,263</b>	<b>4,427</b>
Income before income tax benefit and equity in undistributed income of subsidiaries	5,003	7,342	4,489
Income tax benefit	1,058	859	837
Equity in undistributed (loss) income of subsidiaries	(5,105)	12,550	17,191
<b>Net income</b>	<b>\$ 956</b>	<b>\$ 20,751</b>	<b>\$ 22,517</b>

**Condensed Statements of Cash Flows**

(in thousands)	For the Years Ended December 31,		
	31,	For the Years Ended December 31,	For the Years Ended December 31,
(in thousands)	(in thousands)	2022	2021
<b>Cash flows</b>	<b>Cash flows</b>		
<b>from</b>	<b>from</b>		
<b>operating</b>	<b>operating</b>		
<b>activities:</b>	<b>activities:</b>		
Net income	Net income	\$ 20,751	\$ 22,517
Net income		\$ 14,293	
Net income			

Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in undistributed income of subsidiaries		
Equity in undistributed income of subsidiaries		
Equity in undistributed income of subsidiaries	Equity in undistributed income of subsidiaries	
Decrease in deferred tax asset	Decrease in deferred tax asset	540 907 432
Other, net	Other, net	(1,060) (607) 1,031
<b>Net cash provided by operating activities</b>	<b>Net cash provided by operating activities</b>	<b>\$ 7,681 \$ 5,626 \$ 3,066</b>
<b>Cash flows from investing activities:</b>	<b>Cash flows from investing activities:</b>	
(Increase) decrease in investment in subsidiaries, net		\$ 110 \$ (70) \$ 307
Decrease (increase) in investment in subsidiaries, net		
Decrease (increase) in investment in subsidiaries, net		
Decrease (increase) in investment in subsidiaries, net		
<b>Net cash provided by (used in) investing activities</b>	<b>Net cash provided by (used in) investing activities</b>	<b>\$ 110 \$ (70) \$ 307</b>
<b>Cash flows from financing activities:</b>	<b>Cash flows from financing activities:</b>	
Cash dividends paid - common stock		
Cash dividends paid - common stock		
Cash dividends paid - common stock	Cash dividends paid - common stock	\$ (4,240) \$ (3,616) \$ (3,030)

Purchase of treasury stock	Purchase of treasury stock	(2,892)	(2,148)	(906)
<b>Net cash used in financing activities</b>	<b>Net cash used in financing activities</b>			
		\$ (7,132)	\$ (5,764)	\$ (3,936)
Net increase (decrease) in cash and due from banks	Net increase (decrease) in cash and due from banks	659	(208)	(563)
<b>Cash and due from banks at beginning of year</b>	<b>Cash and due from banks at beginning of year</b>	1,805	2,013	2,576
<b>Cash and due from banks at end of year</b>	<b>Cash and due from banks at end of year</b>	\$ 2,464	\$ 1,805	\$ 2,013

#### MARKET PRICE AND DIVIDENDS ON EQUITY SECURITIES AND RELATED MATTERS

##### Market Price

The Company's common stock trades on Nasdaq's global select market under the stock symbol of *HWBK*.

##### Shares Outstanding

As of December 31, 2022 December 31, 2023, the Company had issued 7,284,151 7,554,893 shares of common stock, of which 6,768,581 7,039,323 shares were outstanding. The outstanding shares were held of record by approximately 2,062 2,064 shareholders.

##### Dividends

The following table sets forth information on dividends paid by the Company in 2022 2023 and 2021 2022.

Month Paid		Dividends Paid	Per Share
January, 2023		\$	0.17
April, 2023			0.17
July, 2023			0.17
October, 2023			0.17
<b>Total for, 2023</b>		\$	0.68
January, 2022		\$	0.15
April, 2022			0.15
July, 2022			0.17
October, 2022			0.17
<b>Total for, 2022</b>		\$	0.64
January, 2021		\$	0.13
April, 2021			0.13
July, 2021			0.15
October, 2021			0.15
<b>Total for 2021</b>		\$	0.56

The **Board** **board** of **Directors** **directors** intends that the Company will continue to pay quarterly dividends. The actual amount of quarterly dividends and the payment, as well as the amount, of any special dividend ultimately will depend on the payment of sufficient dividends by the subsidiary Bank to the Company. The payment by the Bank of dividends to the Company will depend upon such factors as the Bank's financial condition, results of operations and current and anticipated cash needs, including capital requirements.

**DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY**

Name	Position with the Company	Position with the Bank	Principal Occupation
David T. Turner	Brent M. Giles <b>Chairman</b> , Chief Executive Officer, <b>President</b> and Director -Class III	<b>Chairman</b> , Chief Executive Officer, <b>President</b> and Director	Position with the Company and the Bank
Kathleen L. Brueghemke	Senior Vice President, Chief Risk Officer, Corporate Secretary, and Director-Class I	<b>Senior Executive Vice President</b> , <b>Chief Operating Officer</b> , Chief Risk Officer, Corporate Secretary, and Director	Position with the Company and the Bank
Stephen Chris E. Guthrie Hafner	Senior Vice President and Chief Financial Officer	<b>Senior Executive Vice President</b> and Chief Financial Officer	Position with the Company and the Bank
Kevin L. Riley	Gregg A. Bexten <b>President</b> and Director-Class III	<b>President</b> and Director	Position with the Company and the Bank
Martin Weishaar		Executive Vice President, Chief Operations Officer, General Counsel	Position with the Bank
John Bowers		Executive Vice President and Chief Strategy Officer	Position with the Bank
Jason E. Schwartz	Senior Vice President and Chief Credit Officer	Executive Vice President and Chief Credit Officer	Position with the Company and the Bank

Name	Position with the Company	Position with the Bank	Principal Occupation
Douglas T. Eden	Director-Class I	Director	Principal, Eden Capital Management, LLC
David T. Turner	Executive Chairman and Director-Class III	Executive Chairman and Director	Retired, Jefferson City, Missouri
Kevin L. Riley	Director-Class III	Director	Retired, Jefferson City, Missouri
Frank E. Burkhead	Director-Class II	Director	Owner, Burkhead Wealth Management, Co-owner, Burkhead & Associates, LLC, Pro 356, LLC, and FACT Properties, LLC, Jefferson City, Missouri
Philip D. Freeman	Director-Class I	Director	Owner, Freeman Properties, JCMO, LLC, Jefferson City, Missouri
Gus S. (Jack) Wetzel III	Director-Class II	Director	Co-owner, Meadows Construction Co, Inc., Meadows Contracting LLC, Meadows Development Co, Village Park Investments, LLC, Meadows Property, LLC, TWC Enterprise, LLC, Wetzel Investments Ltd., and GCSL, LLC, all of Clinton, Missouri
Jonathan D. Holtaway	Director – Class I	Director	Co-owner, Managing Member, Ategra GP, LLC, and President, Ategra Capital Management LLC, and Managing Member of Ategra LS500, LP and Ategra Community Financial Institution Fund, LP, all of Vienna, Virginia
Jonathan L. States	Director-Class II	Director	Member / owner, Little Dixie Construction, LLC, Columbia, Missouri.
Shawna M. Hettinger	Director-Class III	Director	President & majority owner, Streetwise, Inc., Grandview, Missouri

**ANNUAL REPORT ON FORM 10-K**

A copy of the Company's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**, as filed with the Securities and Exchange Commission, excluding exhibits, will be furnished without charge to shareholders entitled to vote, and to beneficial owners of shares entitled to be voted, at the **2023** **2024** annual meeting of shareholders upon written request to Kathleen L. Brueghemke, Corporate Secretary, Hawthorn Bancshares, Inc., 132 East High Street,

Jefferson City, Missouri 65101. The Company will provide a copy of any exhibit to the Form 10-K to any such person upon written request and the payment of the Company's reasonable expenses in furnishing such exhibits.

8882

Exhibit 21

#### List of Subsidiaries

Name of Subsidiary	Jurisdiction of Organization
Hawthorn Bank	Missouri
Jefferson City IHC, LLC	Missouri (limited liability company)
HB Reality, LLC	Missouri (limited liability company)
Exchange National Statutory Trust I	Connecticut
Exchange National Statutory Trust II	Delaware
Hawthorn Real Estate, LLC	Missouri (limited liability company)

Exhibit 23

#### Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement (No. 333-136477) statements (Nos. 333-136477 and 333-273051) on Form S-8 and registration statement (No. 333-101415) on Form S-3D of Hawthorn Bancshares, Inc., of our reports dated **March 29, 2023** **March 18, 2024**, with respect to the consolidated financial statements of Hawthorn Bancshares, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

St. Louis, Missouri

March 29, 2023 18, 2024

Exhibit 31.1

#### CERTIFICATIONS

I, **David T. Turner**, **Brent M. Giles**, certify that:

1. I have reviewed this report on Form 10-K 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: **March 29, 2023** **March 18, 2024**

*/s/* **David T. Turner** **Brent M. Giles**

**David T. Turner** **Brent M. Giles**

**Chairman of the Board, CEO, & President** **Chief Executive Officer (Principal Executive Officer)**

**Exhibit 31.2**

#### **CERTIFICATIONS**

I, **Stephen** **Chris E. Guthrie**, **Hafner**, certify that:

1. I have reviewed this report on Form 10-K 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.

Dated: **March 29, 2023** March 18, 2024

**/s/ Stephen Chris E. Guthrie Hafner**

**Stephen Chris E. Guthrie Hafner**

Chief Financial Officer

**Exhibit 32.1**

**Certification of Chief Executive Officer**

In connection with the Annual Report of Hawthorn Bancshares, Inc. (the Company) on Form 10-K for the period ended **December 31, 2022** December 31, 2023 as filed with the Securities and Exchange Commission (the Report), I, **David T. Turner, Chairman of the Board, Brent M. Giles**, Chief Executive Officer and President of the 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: **March 29, 2023** March 18, 2024

**/s/ David T. Turner Brent M. Giles**

**David T. Turner Brent M. Giles**

**Chairman of the Board, CEO, & President Chief Executive Officer (Principal Executive Officer)**

"A signed original of this written statement required by Section 906 has been provided to Hawthorn Bancshares, Inc. and will be retained by Hawthorn Bancshares, Inc. and furnished to the Securities and Exchange Commission or its staff upon request."

**Exhibit 32.2**

**Certification of Chief Financial Officer**

In connection with the Annual Report of Hawthorn Bancshares, Inc. (the Company) on Form 10-K for the period ended **December 31, 2022** December 31, 2023 as filed with the Securities and Exchange Commission (the Report), I, **Stephen Chris E. Guthrie, Hafner**, Chief Financial Officer of the 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.

/s/ **Stephen Chris E. Guthrie Hafner**

**Stephen Chris E. Guthrie Hafner**

Chief Financial Officer

"A signed original of this written statement required by Section 906 has been provided to Hawthorn Bancshares, Inc. and will be retained by Hawthorn Bancshares, Inc. and furnished to the Securities and Exchange Commission or its staff upon request."

**Exhibit 97.1**

**HAWTHORN BANCSHARES, INC.**  
**POLICY FOR THE RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION**

**1. Purpose.** The purpose of this Policy is to describe certain circumstances in which Executive Officers will be required to repay or return Erroneously Awarded Compensation to the Company Group. Each Executive Officer shall sign an acknowledgement or other agreement pursuant to which such Executive Officer will agree to be bound by, and comply with, this Policy.

**2. Administration.** This Policy shall be administered by the Committee. The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. Notwithstanding the foregoing, it is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Securities Exchange Act of 1934, as amended, and any applicable rules or standards adopted by the SEC or Nasdaq, and, to the extent this Policy is in any manner deemed inconsistent with such rules or standards, this Policy shall be treated as retroactively amended to be compliant with such rules or standards. Any determinations made by the Committee shall be final and binding on all affected individuals and need not be uniform with respect to each individual covered by this Policy. In the administration of this Policy, the Committee is authorized and directed to consult with the full Board or such other committees of the Board, such as the Audit Committee, as may be necessary or appropriate as to matters within the scope of such other committee's responsibility and authority. Subject to any limitation at applicable law, the Committee may authorize and empower any officer or employee of the Company to take any and all actions necessary or appropriate to carry out the purpose and intent of this Policy (other than with respect to any recovery under this Policy involving such officer or employee).

**3. Definitions.** For purposes of this Policy, the following capitalized terms shall have the meanings set forth below.

(a) **"Accounting Restatement"** means an accounting restatement (i) due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or (ii) that corrects an error that is not material to previously issued financial statements, but would result in a material misstatement if the error were not corrected the current period or left uncorrected in the current period. For the avoidance of doubt, an out-of-period adjustment, in which an error is immaterial to the previously issued financial statements and the correction of the error is also immaterial to the current period, shall not constitute an Accounting Restatement.

(b) **"Board"** means the Board of Directors of the Company.

(c) **"Clawback Eligible Incentive Compensation"** means, in connection with an Accounting Restatement and with respect to each individual who served as an Executive Officer at any time during the applicable performance period for any Incentive-based Compensation (whether or not such Executive Officer is serving at the time the Erroneously Awarded Compensation is required to be repaid to the Company Group), all Incentive-based Compensation Received by such Executive Officer (i) on or after the Effective Date, (ii) after beginning service as an Executive Officer, (iii) while the Company has a class of securities listed on a national securities exchange or a national securities association, and (iv) during the applicable Clawback Period.

(d) **"Clawback Period"** means, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Date and any transition

period (that results from a change in the Company's fiscal year) of less than nine months within or immediately following those three completed fiscal years. For purposes of this Policy, a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to twelve months will be deemed a completed fiscal year.

- (e) "**Committee**" means the Compensation Committee of the Board.
- (f) "**Company**" means Hawthorn Bancshares, Inc., a Missouri corporation.
- (g) "**Company Group**" means the Company, together with each of its direct and indirect subsidiaries.
- (h) "**Effective Date**" means October 2, 2023.
- (i) "**Erroneously Awarded Compensation**" means, with respect to each Executive Officer in connection with an Accounting Restatement, the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid. By way of example, with respect to any compensation plans or programs that take into account or relate to Incentive-based Compensation, the amount of Erroneously Awarded Compensation subject to recovery under this Policy includes, but is not limited to, the amount contributed to any notional account based on Erroneously Awarded Compensation and any earnings accrued to date on that notional amount.
- (j) "**Executive Officer**" means (i) each individual who is or was designated as an "officer" of the Company in accordance with 17 C.F.R. 240.16a-1(f); and (ii) such additional members of the Company's senior leadership team as may be designated by the Committee. Executive Officer for purposes of this Policy includes, at a minimum, executive officers identified pursuant to 17 C.F.R. 229.401(b). Subsequent changes in an Executive Officer's employment status, including retirement or termination of employment, do not affect the Company's rights to recover Erroneously Awarded Compensation pursuant to this Policy.
- (k) "**Financial Reporting Measure**" means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any other measure that is derived wholly or in part from such measure. For the avoidance of doubt, a Financial Reporting Measure need not be presented in the Company's financial statements or included in a filing with the SEC. Stock price and total shareholder return shall, for purposes of this Policy, each be considered a Financial Reporting Measure.
- (l) "**Incentive-based Compensation**" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.
- (m) "**Nasdaq**" means The Nasdaq Stock market.
- (n) "**Policy**" means this Policy for the Recovery of Erroneously Awarded Compensation, as the same may be amended and/or restated from time to time.
- (o) "**Received**" means actual or deemed receipt, and Incentive-based Compensation shall be deemed received in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-based Compensation award is attained, even if payment or grant of the Incentive-based Compensation occurs after the end of that period. For the avoidance of doubt, Incentive-based Compensation that is subject to both a Financial Reporting Measure vesting condition and a service-based vesting condition shall be considered Received when the relevant Financial Reporting Measure is achieved.

---

even if the Incentive-based Compensation continues to be subject to the service-based vesting condition which is later satisfied.

(p) "**Restatement Date**" means the earlier to occur of (i) the date the Board, a committee of the Board, or the officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement, in each case regardless of if or when the restated financial statements are filed.

- (q) "**SEC**" means the U.S. Securities and Exchange Commission.

#### **4. Repayment of Erroneously Awarded Compensation.**

(a) In the event of an Accounting Restatement, the Committee shall reasonably promptly determine the amount of any Erroneously Awarded Compensation for each Executive Officer in connection with such Accounting Restatement and shall reasonably promptly thereafter provide each Executive Officer

with a written notice containing the amount of Erroneously Awarded Compensation and a demand for repayment or return, as applicable. For Incentive-based Compensation based on (or derived from) stock price or total shareholder return where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, the amount shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-based Compensation was Received (in which case, the Company shall maintain documentation of such determination of that reasonable estimate and provide such documentation to Nasdaq).

(b) The Committee shall have broad discretion to determine the appropriate means of recovery of Erroneously Awarded Compensation based on all applicable facts and circumstances and taking into account the time value of money and the cost to shareholders of delaying recovery, which methods of recovery need not be applied on a consistent basis; provided in any case that any such method provides for reasonably prompt recovery and otherwise complies with any requirements of Nasdaq. To the extent that the Committee determines that any method of recovery (other than repayment by the Executive Officer in a lump sum in cash or property) is appropriate, the Company shall offer to enter into a repayment agreement (in a form reasonable acceptable to the Committee) with the Executive Officer. If the Executive Officer fails to sign the repayment agreement within thirty (30) days after such offer is extended, the Executive Officer will be required to repay the Erroneously Awarded Compensation in a lump sum in cash. For the avoidance of doubt, except as set forth in Section 4(e) below, in no event may the Company Group accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of an Executive Officer's obligations hereunder.

(c) To the extent that an Executive Officer fails to repay all Erroneously Awarded Compensation to the Company Group when due, the Company shall, or shall cause one or more other members of the Company Group to, take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the applicable Executive Officer, which may include without limitation, by way of example, the forfeiture of unvested Incentive-based Compensation, the forfeiture of unvested time-based equity or cash incentive compensation awards, the forfeiture of benefits under a nonqualified deferred compensation plan, withholding of dividends and the offset of all or a portion of the amount of the Erroneously Awarded Compensation against other compensation payable to the Executive Officer.

---

(d) The applicable Executive Officer shall be required to reimburse the Company Group for any and all expenses reasonably incurred (including legal fees) by members of the Company Group in recovering such Erroneously Awarded Compensation in accordance with the terms of this Policy.

(e) Notwithstanding anything herein to the contrary, the Company shall not be required to take the actions contemplated by this Section 4 if the following conditions are met and the Committee determines that recovery would be impracticable:

(i) The direct expenses paid to a third party to assist in enforcing the Policy against an Executive Officer would exceed the amount to be recovered, after the Company has made a reasonable attempt to recover the applicable Erroneously Awarded Compensation, documented such attempts, and provided such documentation to Nasdaq;

(ii) Recovery would violate home country law where that law was adopted prior to November 28, 2022; provided that, before determining that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation, and a copy of the opinion has been provided to Nasdaq; or

(iii) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company Group, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

**5. Reporting and Disclosure.** The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the federal securities laws, including disclosures required by applicable SEC filings.

**6. Indemnification Prohibition.** No member of the Company Group shall indemnify any Executive Officer (including for the avoidance of doubt any former Executive Officer) against (a) the loss of any Erroneously Awarded Compensation that is repaid, returned or recovered pursuant to the terms of this Policy, or (b) any claims relating to the enforcement by any member of the Company Group of its rights under this Policy. Further, the members of the Company Group are prohibited from paying or reimbursing an Executive Officer (including for the avoidance of doubt any former Executive Officer) for the cost of purchasing insurance to cover any such loss. No member of the Company Group shall enter into any agreement that exempts any Incentive-based Compensation from the application of this Policy or that waives the right of any member of the Company Group to recovery of any Erroneously Awarded Compensation and this Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date).

7. **Administrator Indemnification.** Any members of the Committee, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company to the fullest extent under applicable law and Company policy or applicable indemnification agreement with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy or applicable indemnification agreement.

8. **Effective Date.** This Policy shall be effective as of the Effective Date.

9. **Amendment; Termination.** The Committee may unilaterally amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary, including as and when it determines that it is legally required by any federal securities laws, SEC rule, or the rules of any national securities exchange

or national securities association on which the Company's securities are listed. The Committee may terminate this Policy at any time. Notwithstanding anything in this Section 9 to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule, or the rules of any national securities exchange or national securities association on which the Company's securities are listed.

10. **Other Recoupment Rights; No Additional Payments; Company Claims.** The Committee intends that this Policy will be applied to the fullest extent of the law. The Committee may require that any employment agreement, equity award agreement, or any other agreement entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require an employee to agree to abide by the terms of this Policy to the extent applicable, and any employment agreement, equity award agreement, or any other agreement entered into with an employee of any member of the Company Group before, on or after the Effective Date may be unilaterally amended by any member of the Company Group to comply with this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to any member of the Company Group under applicable law, regulation or rule or pursuant to the terms of any similar policy or provision in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the members of the Company Group. Nothing contained in this Policy, and no recoupment or recovery as contemplated by this Policy, shall limit any claims, damages or other legal remedies the members of the Company Group or any of their respective affiliates may have against an Executive Officer arising out of or resulting from any actions or omissions by the Executive Officer.

11. **Successors.** This Policy shall be binding and enforceable against all Executive Officers and their beneficiaries, heirs, executors, administrators or other legal representatives.

12. **Severability.** The provisions of this Policy are intended to be applied to the fullest extent of the law. To the extent that any provision of this Policy is found to be unenforceable or invalid under any applicable law, such provision shall be applied to the maximum extent permitted, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.

13. **Governing Law; Interpretation.** The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. Except to the extent preempted by federal law, the laws of the State of Missouri, as amended from time to time, shall govern the construction and application of this Policy. Words used in the singular shall include the plural, as appropriate. The words "herein," "hereunder," and other similar compounds of the word "here" shall refer to this entire Policy, not to a particular section. Any mention of "Sections", unless stated specifically to the contrary, refers to a section in this Policy. All references to statutory sections or rules or standards of any governmental authority, national securities exchange or national securities association include the section, rule or standard so identified, as amended from time to time, or any other applicable statute, rule or standard of similar import and in the case of any statute, all applicable rule and regulations promulgated thereunder. The word "including" (in its various forms) means "including without limitation."

**HAWTHORN BANCSHARES, INC.**  
**POLICY FOR THE RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION**

**ACKNOWLEDGEMENT FORM**

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Hawthorn Bancshares, Inc. Policy for the Recovery of Erroneously Awarded Compensation (the "**Policy**"). Capitalized terms used but not otherwise defined in this Acknowledgement Form (this "**Acknowledgement Form**") shall have the meanings ascribed to such terms in the Policy.

By signing this Acknowledgement Form, and in consideration of the continued benefits to be received from the Company Group and the undersigned's right to participate in, and as a condition to the receipt of, Incentive-based Compensation, the undersigned acknowledges and agrees that: (i) the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned's employment with the Company Group; (ii) the undersigned will abide by the terms of the Policy, including, without limitation, by returning any Erroneously Awarded Compensation (as defined in the Policy) to the Company Group to the extent required by, and in a manner permitted by, the Policy; and (iii) that the terms of the Policy in effect from time to time shall supersede any conflicting obligations of the Company Group in any existing or future governing document of the Company Group, including without limitation any compensatory or benefit plan or program, employment agreement, equity award agreement, severance obligation or charter or bylaw provision.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name

\_\_\_\_\_  
Date

#### DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All rights reserved. Patents Pending.