

REFINITIV

DELTA REPORT

10-Q

PLBC - PLUMAS BANCORP

10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 971

■ CHANGES 384

■ DELETIONS 277

■ ADDITIONS 310

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED

June September 30, 2024

TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____
TO _____

COMMISSION FILE NUMBER: 000-49883

PLUMAS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

California

75-2987096

(State or Other Jurisdiction of Incorporation or Organization)

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

5525 Kietzke Lane, Suite 100, Reno, Nevada

89511

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code **(775) 786-0907**

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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule12b-2 of the Exchange Act:

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company Emerging Growth Company

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

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

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

Title of Each Class:

Common Stock, no par value

Trading Symbol

PLBC

Name of Each Exchange on which Registered:

The NASDAQ Stock Market LLC

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of **August 2, 2024** **November 4, 2024**: **5,895,900** **5,897,333** shares.

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PLUMAS BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Assets				
Cash and cash equivalents	\$ 109,852	\$ 85,655	\$ 117,959	\$ 85,655
Investment securities available for sale, net of allowance for credit losses of \$0 at June 30, 2024 and December 31, 2023	445,132	489,181		
Loans, less allowance for credit losses of \$14,082 at June 30, 2024 and \$12,867 at December 31, 2023	986,517	948,604		
Investment securities available for sale, net of allowance for credit losses of \$0 at September 30, 2024 and December 31, 2023			456,720	489,181
Loans, less allowance for credit losses of \$13,606 at September 30, 2024 and \$12,867 at December 31, 2023			993,070	948,604
Other real estate owned	141	357	141	357
Premises and equipment, net	12,868	18,948	12,703	18,948
Right-of-use assets	24,975	2,926	24,657	2,926
Bank owned life insurance	16,310	16,110	16,415	16,110
Goodwill	5,502	5,502	5,502	5,502
Accrued interest receivable and other assets	40,800	43,133	36,807	43,133
Total assets	\$ 1,642,097	\$ 1,610,416	\$ 1,663,974	\$ 1,610,416
Liabilities and Shareholders' Equity				
Deposits:				
Non-interest bearing	\$ 670,652	\$ 692,768	\$ 703,005	\$ 692,768
Interest bearing	633,935	640,887	647,991	640,887
Total deposits	1,304,587	1,333,655	1,350,996	1,333,655
Repurchase agreements	13,870	23,054	16,992	23,054
Lease liabilities	25,203	3,001	24,983	3,001
Accrued interest payable and other liabilities	13,282	13,389	14,061	13,389
Other borrowings	120,000	90,000	75,000	90,000
Total liabilities	1,476,942	1,463,099	1,482,032	1,463,099
Commitments and contingencies (Note 5)				
Shareholders' equity:				
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding – 5,895,900 shares at June 30, 2024 and 5,871,523 at December 31, 2023	28,656	28,033		
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding – 5,896,533 shares at September 30, 2024 and 5,871,523 at December 31, 2023			28,813	28,033
Retained earnings	161,608	151,748	167,846	151,748
Accumulated other comprehensive loss, net	(25,109)	(32,464)	(14,717)	(32,464)
Total shareholders' equity	165,155	147,317	181,942	147,317
Total liabilities and shareholders' equity	\$ 1,642,097	\$ 1,610,416	\$ 1,663,974	\$ 1,610,416

See notes to unaudited condensed financial statements.

PLUMAS BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Uaudited)
(In thousands, except per share data)

	For the Three Months Ended		For the Six Months Ended		For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
Interest Income:								
Interest and fees on loans	\$ 15,412	\$ 13,393	\$ 30,005	\$ 26,087	\$ 15,635	\$ 14,276	\$ 45,639	\$ 40,363
Interest on investment securities	4,534	3,865	8,930	7,593	4,481	3,811	13,412	11,404
Other	1,214	965	2,252	2,330	1,746	955	3,998	3,286
Total interest income	21,160	18,223	41,187	36,010	21,862	19,042	63,049	55,053
Interest Expense:								
Interest on deposits	1,316	864	2,502	1,331	1,571	1,180	4,074	2,511
Interest on junior subordinated deferrable interest debentures	-	-	-	141	-	-	-	141
Interest on borrowings	1,431	113	2,798	141	1,413	114	4,210	255
Other	8	7	25	9	8	9	33	18
Total interest expense	2,755	984	5,325	1,622	2,992	1,303	8,317	2,925
Net interest income before provision for credit losses	18,405	17,239	35,862	34,388	18,870	17,739	54,732	52,128
Provision for Credit Losses	925	1,350	1,746	2,875				
(Recovery of) Provision for Credit Losses					(400)	(200)	1,346	2,675
Net interest income after provision for credit losses	17,480	15,889	34,116	31,513	19,270	17,939	53,386	49,453
Non-Interest Income:								
Gain on sale of buildings	-	-	19,854	-	-	-	19,854	-
Interchange revenue	782	824	1,522	1,539	818	919	2,340	2,458
Service charges	743	694	1,458	1,313	766	737	2,224	2,051
Gain on termination of swaps	-	-	-	1,707	-	-	-	1,707
Net loss on sale of investment securities	-	-	(19,826)	-				
Net gain (loss) on sale of investment securities					9	-	(19,817)	-
Other	677	625	1,334	1,509	644	657	1,978	2,164
Total non-interest income	2,202	2,143	4,342	6,068	2,237	2,313	6,579	8,380
Non-Interest Expenses:								
Salaries and employee benefits	5,283	4,866	10,649	9,933	5,481	5,114	16,129	15,047
Occupancy and equipment	1,949	1,253	3,639	2,593	1,988	1,352	5,627	3,945
Other	3,164	2,979	6,505	5,797	3,355	2,976	9,861	8,772
Total non-interest expenses	10,396	9,098	20,793	18,323	10,824	9,442	31,617	27,764
Income before provision for income taxes	9,286	8,934	17,665	19,258	10,683	10,810	28,348	30,069
Provision for Income Taxes	2,500	2,274	4,625	4,973	2,853	2,840	7,478	7,814
Net income	\$ 6,786	\$ 6,660	\$ 13,040	\$ 14,285	\$ 7,830	\$ 7,970	\$ 20,870	\$ 22,255
Basic earnings per share	\$ 1.15	\$ 1.14	\$ 2.21	\$ 2.44	\$ 1.33	\$ 1.36	\$ 3.54	\$ 3.80
Diluted earnings per share	\$ 1.14	\$ 1.12	\$ 2.19	\$ 2.41	\$ 1.31	\$ 1.34	\$ 3.50	\$ 3.75

See notes to unaudited condensed financial statements.

PLUMAS BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	For the Three Months Ended		For the Six Months Ended		For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,		September 30,		September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
Net income	\$ 6,786	\$ 6,660	\$ 13,040	\$ 14,285	\$ 7,830	\$ 7,970	\$ 20,870	\$ 22,255
Other comprehensive (loss) income:								
Other comprehensive income (loss):								
Change in net unrealized loss on securities	(2,405)	(7,936)	(9,383)	(291)	14,761	(21,712)	5,378	(22,003)
Change in unrealized gain on cash flow hedge	-	-	-	(295)	-	-	-	(295)
Less: reclassification adjustments for net loss (gain) included in net income	-	-	19,826	(1,707)				
Net unrealized holding (loss) gain	(2,405)	(7,936)	10,443	(2,293)				
Less: reclassification adjustments for net (gain) loss included in net income				(9)	-	19,817	(1,707)	
Net unrealized holding gain (loss)					14,752	(21,712)	25,195	(24,005)
Related tax effect:								
Change in net unrealized loss on securities	711	2,346	2,773	85	(4,363)	6,419	(1,590)	6,504
Change in unrealized gain on cash flow hedge	-	-	-	87	-	-	-	87
Reclassification of loss (gain) included in net income	-	-	(5,861)	505				
Reclassification of (gain) loss included in net income					3	-	(5,858)	505
Income tax effect	711	2,346	(3,088)	677	(4,360)	6,419	(7,448)	7,096
Other comprehensive (loss) income	(1,694)	(5,590)	7,355	(1,616)				
Total comprehensive income	\$ 5,092	\$ 1,070	\$ 20,395	\$ 12,669				
Other comprehensive income (loss)					10,392	(15,293)	17,747	(16,909)
Total comprehensive income (loss)					\$ 18,222	\$ (7,323)	\$ 38,617	\$ 5,346

See notes to unaudited condensed financial statements.

PLUMAS BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands, except shares)

	Accumulated					Accumulated				
	Common Stock		Retained	Other	Total	Common Stock		Retained	Other	Total
	Shares	Amount	Earnings	Comprehensive Loss	Shareholders' Equity	Shares	Amount	Earnings	Comprehensive Loss	Shareholders' Equity
Balance, December 31, 2022	5,850,216	\$ 27,372	\$ 128,388	\$ (36,756)	\$ 119,004	5,850,216	\$ 27,372	\$ 128,388	\$ (36,756)	\$ 119,004
Cumulative change from adoption of ASU 2016-13			(554)		(554)				(554)	(554)

	14,285	14,285	-	-	22,255	-	22,255
Net Income							
Other comprehensive loss		(1,616)	(1,616)	-	-	(16,909)	(16,909)
Cash dividends on common stock (\$0.25 per share)	(2,928)	(2,928)	-	-	(4,395)	-	(4,395)
Exercise of stock options and tax effect	14,232	168	168				
Termination of restricted shares			(825)	-	-	-	-
Exercise of stock options			19,032	261	-	-	261
Stock-based compensation expense	199	199	-	263	-	-	263
Balance, June 30, 2023	5,864,448	\$ 27,739	\$ 139,191	\$ (38,372)	\$ 128,558		
Balance, September 30, 2023				5,868,423	\$ 27,896	\$ 145,694	\$ (53,665)
							\$ 119,925
 Balance, December 31, 2023	5,871,523	\$ 28,033	\$ 151,748	\$ (32,464)	\$ 147,317	5,871,523	\$ 28,033
Net Income			13,040		13,040	-	20,870
Other comprehensive income			7,355	7,355	-	-	17,747
Cash dividends on common stock (\$0.27 per share)		(3,180)		(3,180)	-	(4,772)	-
Exercise of stock options and tax effect	24,377	367		367			
Exercise of stock options				25,010	367	-	367
Stock-based compensation expense	256			-	413	-	413
Balance, June 30, 2024	5,895,900	\$ 28,656	\$ 161,608	\$ (25,109)	\$ 165,155		
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss (Net of Taxes)	Total Shareholders' Equity			
	Shares	Amount	Earnings	(Net of Taxes)	Equity		
 Balance, March 31, 2023	5,862,148	\$ 27,608	\$ 133,997	\$ (32,782)	\$ 128,823		
Net Income			6,660		6,660		
Other comprehensive loss			(5,590)		(5,590)		
Cash dividends on common stock (\$0.25 per share)		(1,466)		(1,466)			
Exercise of stock options and tax effect	2,300	31		31			
Stock-based compensation expense		100		100			
Balance, June 30, 2023	5,864,448	\$ 27,739	\$ 139,191	\$ (38,372)	\$ 128,558		
 Balance, March 31, 2024	5,895,595	\$ 28,492	\$ 156,414	\$ (23,415)	\$ 161,491		
Net Income			6,786		6,786		
Other comprehensive loss			(1,694)		(1,694)		
Cash dividends on common stock (\$0.27 per share)		(1,592)		(1,592)			
Exercise of stock options and tax effect	305	8		8			
Stock-based compensation expense		156		156			
Balance, June 30, 2024	5,895,900	\$ 28,656	\$ 161,608	\$ (25,109)	\$ 165,155		

	5,896,533	\$ 28,813	\$ 167,846	\$ (14,717)	\$ 181,942	
	Accumulated Other Comprehensive Loss (Net of Taxes)					Total Shareholders' Equity
	Common Stock	Retained Earnings	Loss	(Net of Taxes)	Total Shareholders' Equity	
	Shares	Amount				
Balance, September 30, 2024	5,896,533	\$ 28,813	\$ 167,846	\$ (14,717)	\$ 181,942	
Net Income	-	-	7,970	-	-	7,970
Other comprehensive loss	-	-	-	(15,293)	(15,293)	
Cash dividends on common stock (\$0.25 per share)	-	-	(1,467)	-	(1,467)	
Termination of restricted shares	(825)	-	-	-	-	-
Exercise of stock options	4,800	93	-	-	-	93
Stock-based compensation expense	-	64	-	-	-	64
Balance, June 30, 2023	5,864,448	\$ 27,739	\$ 139,191	\$ (38,372)	\$ 128,558	
Net Income	-	-	7,970	-	-	7,970
Other comprehensive loss	-	-	-	(15,293)	(15,293)	
Cash dividends on common stock (\$0.25 per share)	-	-	(1,467)	-	(1,467)	
Termination of restricted shares	(825)	-	-	-	-	-
Exercise of stock options	4,800	93	-	-	-	93
Stock-based compensation expense	-	64	-	-	-	64
Balance, September 30, 2023	5,868,423	\$ 27,896	\$ 145,694	\$ (53,665)	\$ 119,925	
Net Income	-	-	7,830	-	-	7,830
Other comprehensive income	-	-	-	10,392	10,392	
Cash dividends on common stock (\$0.27 per share)	-	-	(1,592)	-	(1,592)	
Termination of restricted shares	(825)	-	-	-	-	-
Exercise of stock options	633	-	-	-	-	-
Stock-based compensation expense	-	157	-	-	-	157
Balance, September 30, 2024	5,895,900	\$ 28,656	\$ 161,608	\$ (25,109)	\$ 165,155	
Net Income	-	-	7,830	-	-	7,830
Other comprehensive income	-	-	-	10,392	10,392	
Cash dividends on common stock (\$0.27 per share)	-	-	(1,592)	-	(1,592)	
Termination of restricted shares	(825)	-	-	-	-	-
Exercise of stock options	633	-	-	-	-	-
Stock-based compensation expense	-	157	-	-	-	157
Balance, September 30, 2024	5,896,533	\$ 28,813	\$ 167,846	\$ (14,717)	\$ 181,942	

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

Cash Flows from Operating Activities:	For the Six Months Ended				For the Nine Months Ended	
	June 30,		September 30,		2024	2023
	2024	2023	2024	2023		
Net income	\$ 13,040	\$ 14,285	\$ 20,870	\$ 22,255		
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for credit losses	1,746	2,875	1,346	2,675		
Change in deferred loan origination costs/fees, net	(369)	(249)	(291)	(446)		
Depreciation and amortization	719	778	1,132	1,221		
Stock-based compensation expense	256	199	413	263		
Loss on sale of investment securities	19,826	-				
Net loss on sale of investment securities			19,817	-		
Amortization of investment security premiums	454	639	644	953		
Accretion of investment security discounts	(574)	(393)	(881)	(582)		

Loss (gain) on sale of other vehicles	31	(10)	77	(10)
Gain on sale of loans held for sale	(37)	(219)	(37)	(234)
Loans originated for sale	(636)	(1,361)	(1,131)	(1,188)
Proceeds from loan sales	757	5,338	757	5,739
Earnings on bank-owned life insurance	(200)	(204)	(305)	(313)
Gain on sale of buildings	(19,854)	-	(19,854)	-
(Increase) decrease in accrued interest receivable and other assets	(507)	804		
Decrease (increase) in accrued interest receivable and other assets			(527)	(1,030)
(Decrease) increase in accrued interest payable and other liabilities	(414)	2,923	195	8,513
Net cash provided by operating activities	14,238	25,405	22,225	37,816
Cash Flows from Investing Activities:				
Proceeds from principal repayments from available-for-sale securities	16,676	15,514	27,352	24,082
Proceeds from sale of available-for-sale securities	114,838	-	116,285	-
Proceeds from matured and called available-for-sale securities	4,570	1,135	4,700	1,385
Purchases of available-for-sale securities	(101,298)	(41,403)	(110,261)	(41,403)
Purchase of Federal Home Loan Bank stock	-	(1,270)	-	(1,270)
Purchase of Federal Reserve Bank stock	(3)	(4)	(6)	(6)
Net increase in loans	(39,895)	(25,883)	(45,977)	(49,922)
Proceeds from the sale of OREO	362	-	362	-
Proceeds from sale of other vehicles	505	337	630	388
Proceeds from bank owned life insurance	-	322	-	322
Proceeds from the sale of buildings	25,690	-	25,690	-
Purchase of premises and equipment	(421)	(1,935)	(570)	(2,005)
Net cash provided by (used in) investing activities	21,024	(53,187)	18,205	(68,429)

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PLUMAS BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)
(Continued)

	For the Six Months Ended		For the Nine Months Ended	
	June 30,		September 30,	
	2024	2023	2024	2023
Cash Flows from Financing Activities:				
Net decrease in demand, interest bearing and savings deposits	\$ (35,207)	\$ (104,786)	\$ 6,752	\$ (96,444)
Net increase (decrease) in demand, interest bearing and savings deposits				
Net increase in time deposits	6,139	42,137	10,589	41,121
Net (decrease) increase in securities sold under agreements to repurchase	(9,184)	1,840		
Net decrease in securities sold under agreements to repurchase			(6,062)	(2,479)
Cash dividends paid on common stock	(3,180)	(2,928)	(4,772)	(4,395)
Redemption of Trust Preferred Securities	-	(10,310)	-	(10,310)
Increase in other borrowings	30,000	10,000	30,000	10,000
Decrease in other borrowings			(45,000)	-
Proceeds from exercise of stock options	367	168	367	261
Net cash used in financing activities	(11,065)	(63,879)	(8,126)	(62,246)
Increase (decrease) in cash and cash equivalents	24,197	(91,661)	32,304	(92,859)

	85,655	183,426	85,655	183,426
	\$ 109,852	\$ 91,765	\$ 117,959	\$ 90,567
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the period for:				
Interest expense	\$ 3,465	\$ 1,292	\$ 6,645	\$ 2,224
Income taxes	\$ 5,135	\$ 26	\$ 6,875	\$ 26
Supplemental noncash disclosures				
Real estate and vehicles acquired through foreclosure/repossession	\$ 431	\$ 410	\$ 727	\$ 440
Common stock retired in connection with the exercise of stock options	\$ 39	\$ 154	\$ 78	\$ 154
Lease liabilities arising from obtaining right-of-use assets	\$ 22,588	\$ -	\$ 22,588	\$ -

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Uaudited)

1. THE BUSINESS OF PLUMAS BANCORP

During 2002, Plumas Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Plumas Bank (the "Bank") in a one bank holding company reorganization. This corporate structure gives the Company and the Bank greater flexibility in terms of operation, expansion and diversification. The Company formed Plumas Statutory Trust I ("Trust I") for the sole purpose of issuing trust preferred securities on September 26, 2002. The Company formed Plumas Statutory Trust II ("Trust II") for the sole purpose of issuing trust preferred securities on September 28, 2005. In March 2023 the Trusts were dissolved. Plumas Bancorp's Principal Executive Office is located in Reno, Nevada.

The Bank operates thirteen branches in California, including branches in Alturas, Chester, Chico, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, Truckee and Yuba City. The Bank's newest branch was opened in April 2023 and is located in Chico, California. The Bank's administrative headquarters are in Quincy, California. In December 2015 the Bank opened a branch in Reno, Nevada, its first branch outside of California, and in 2018 the Bank purchased a branch located in Carson City, Nevada. In addition, the Bank operates a lending office specializing in government-guaranteed lending in Auburn, California, and a commercial/agricultural lending office in Klamath Falls, Oregon. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, Plumas Bank. All significant intercompany balances and transactions have been eliminated.

The accounting and reporting policies of Plumas Bancorp and subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position at **June September** 30, 2024 and the results of its operations and its cash flows for the three and **six nine**-month periods. Our condensed consolidated balance sheet at December 31, 2023 is derived from audited financial statements.

The unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim reporting on Form 10-Q. Accordingly, certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2023 Annual Report to Shareholders on Form 10-K. The results of operations for the three and **six nine**-month periods ended **June September** 30, 2024, may not necessarily be

indicative of future operating results. In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods reported. Actual results could differ significantly from those estimates.

Segment Information

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

Reclassification

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of investment securities at **June September** 30, 2024 and December 31, 2023 consisted of the following, in thousands:

Available-for-Sale	June 30, 2024				September 30, 2024			
	Gross		Gross		Gross		Gross	
	Amortized	Unrealized	Unrealized	Fair	Amortized	Unrealized	Unrealized	Fair
Cost								
Gains								
Losses								
Value								
Debt securities:								
U.S. Treasury securities	\$ 3,995	\$ -	\$ (36)	\$ 3,959	\$ 3,998	\$ -	\$ (7)	\$ 3,991
U.S. Government-sponsored agencies collateralized by mortgage obligations - residential	242,153	92	(15,970)	226,275	243,643	2,287	(10,244)	235,686
U.S. Government-agencies collateralized by mortgage obligations - commercial	137,626	179	(11,518)	126,287	134,642	1,609	(8,867)	127,384
Obligations of states and political subdivisions	97,003	477	(8,869)	88,611	95,330	1,137	(6,808)	89,659
	\$ 480,777	\$ 748	\$ (36,393)	\$ 445,132	\$ 477,613	\$ 5,033	\$ (25,926)	\$ 456,720

Unrealized losses on available-for-sale investment securities totaling **\$35,645,000** \$20,893,000 were recorded, net of **\$10,536,000** \$6,176,000 in tax benefit, as accumulated other comprehensive loss within shareholders' equity at **June September** 30, 2024. During the **six** nine months ended **June September** 30, 2024, the Company sold **155** 157 available-for-sale investment securities for proceeds of **\$114,838,000** \$116,285,000 recording a **\$19,826,000** \$19,817,000 net loss on sale. The Company realized a gain on sale from **9**ten of these securities totaling **\$86,000** \$115,000 and a loss on sale of **146** 147 securities totaling **\$19,912,000** \$19,932,000. During the three months ended September 30, 2024, the Company sold two available-for-sale investment securities for proceeds of \$1,447,000 recording a \$9,000 net gain on sale. The Company realized a gain on sale from one of these securities totaling \$29,000 and a loss on sale of one security totaling \$20,000.

Available-for-Sale	December 31, 2023			
	Gross		Gross	
	Amortized	Unrealized	Unrealized	Fair
Cost				
Gains				
Losses				
Value				
Debt securities:				
U.S. Treasury securities	\$ 6,978	\$ -	\$ (98)	\$ 6,880
U.S. Government-sponsored agencies collateralized by mortgage obligations - residential	256,694	351	(21,114)	235,931
U.S. Government-agencies collateralized by mortgage obligations - commercial	129,321	465	(13,834)	115,952
Obligations of states and political subdivisions	142,276	1,067	(12,925)	130,418
	\$ 535,269	\$ 1,883	\$ (47,971)	\$ 489,181

Unrealized losses on available-for-sale investment securities totaling \$46,088,000 were recorded, net of \$13,624,000 in tax benefit, as accumulated other comprehensive loss within shareholders' equity at December 31, 2023. No securities were sold during the **six** **nine** months ended **June** **September** 30, 2023.

There were no transfers of available-for-sale investment securities during the **six** **nine** months ended **June** **September** 30, 2024 and twelve months ended December 31, 2023. There were no securities classified as held-to-maturity at **June** **September** 30, 2024 or December 31, 2023.

Investment securities with unrealized losses at **June** **September** 30, 2024 and December 31, 2023 are summarized and classified according to the duration of the loss period as follows, in thousands:

<u>June 30, 2024</u>		Less than 12 Months		12 Months or More		Total							
<u>September 30, 2024</u>		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:													
U.S. Treasury securities		\$ -	\$ 3,959	\$ 36	\$ 3,959	\$ 36	\$ -	\$ 3,991	\$ 7	\$ 3,991	\$ 7		
U.S. Government-sponsored agencies collateralized by residential mortgage obligations		61,181	543	138,244	15,427	199,425	15,970	4,357	2	101,187	10,242	105,544	10,244
U.S. Government-agencies collateralized by commercial mortgage obligations		31,852	432	69,240	11,086	101,092	11,518	9,310	106	60,454	8,761	69,764	8,867
Obligations of states and political subdivisions		15,298	113	49,404	8,756	64,702	8,869	1,941	11	50,544	6,797	52,485	6,808
		\$ 108,331	\$ 1,088	\$ 260,847	\$ 35,305	\$ 369,178	\$ 36,393	\$ 15,608	\$ 119	\$ 216,176	\$ 25,807	\$ 231,784	\$ 25,926
<u>December 31, 2023</u>		Less than 12 Months		12 Months or More		Total							
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:													
U.S. Treasury securities		\$ -	\$ -	\$ 6,880	\$ 98	\$ 6,880	\$ 98						
U.S. Government-sponsored agencies collateralized by residential mortgage obligations		43,924	279	160,383	20,835	204,307	21,114						
U.S. Government-agencies collateralized by commercial mortgage obligations		16,533	295	71,782	13,539	88,315	13,834						
Obligations of states and political subdivisions		9,306	151	82,764	12,774	92,070	12,925						
		\$ 69,763	\$ 725	\$ 321,809	\$ 47,246	\$ 391,572	\$ 47,971						

At **June** **September** 30, 2024, the Company held **311** **309** securities of which **48** **six** were in a loss position for less than twelve months and **199** **180** were in a loss position for twelve months or more. Of the **311** **309** securities **1****one** is a U.S. Treasury security, **90** **92** are U.S. Government-sponsored agencies collateralized by residential mortgage obligations, **47** **46** are U.S. Government agencies collateralized by commercial mortgage obligations and **173** **170** were obligations of states and political subdivisions. The unrealized losses relate principally to market rate conditions. All of the securities continue to pay as scheduled. For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized costs basis. If either of the criteria regarding

intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. At **June** **September** 30, 2024, neither of the criteria regarding intent or requirement to sell was met for any of the securities in an unrealized loss position.

Unrealized losses on investments in obligations of U.S. government agencies and U.S. government sponsored agencies are caused by interest rate increases. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, there is no allowance for credit losses recorded.

Obligations of states and political subdivisions: The unrealized losses on investments in obligations of states and political subdivisions were caused by increases in required yields by investors in these types of securities. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell and more likely than not will not be required to sell, there is no allowance for credit losses recorded.

The amortized cost and estimated fair value of investment in debt securities at **June** **September** 30, 2024 by contractual maturity are shown below, in thousands.

	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$ 4,830	\$ 4,789	\$ 4,818	\$ 4,809
After one year through five years	5,638	5,508	5,793	5,824
After five years through ten years	17,439	17,034	17,544	17,765
After ten years	73,091	65,239	71,173	65,252
Investment securities not due at a single maturity date:				
Government- agencies commercial mortgage-backed securities	137,626	126,287	134,642	127,384
Government-sponsored agencies residential mortgage-backed securities	242,153	226,275	243,643	235,686
	\$ 480,777	\$ 445,132	\$ 477,613	\$ 456,720

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment securities with amortized costs totaling **\$309,339,000** **\$327,379,000** and **\$316,733,000** and estimated fair values totaling **\$288,801,000** **\$314,662,000** and **\$285,534,000** at **June** **September** 30, 2024 and December 31, 2023, respectively, were pledged to secure deposits, repurchase agreements and Federal Reserve Bank borrowings.

4. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

Outstanding loans are summarized below, in thousands:

	June 30,		December 31,		September	December
	2024	2023	2023	2024	30,	31,
Commercial	\$ 81,170	\$ 74,271	\$ 82,192	\$ 74,271		
Agricultural	123,661	129,389	121,709	129,389		
Real estate – residential	11,755	11,914	11,672	11,914		
Real estate – commercial	588,332	544,339	618,236	544,339		
Real estate – construction and land development	67,960	57,717	54,287	57,717		
Equity lines of credit (Equity LOC)	38,446	37,871	37,652	37,871		
Auto	80,751	98,132	72,388	98,132		
Other	5,259	4,931	5,352	4,931		
Total loans	997,334	958,564	1,003,488	958,564		
Deferred loan costs, net	3,265	2,907	3,188	2,907		
Loans, amortized cost basis	1,000,599	961,471	1,006,676	961,471		
Allowance for credit losses	(14,082)	(12,867)	(13,606)	(12,867)		

Total net loans	\$ 986,517	\$ 948,604	\$ 993,070	\$ 948,604
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Salaries and employee benefits totaling \$763,000 \$2,062,000 and \$509,000 \$1,765,000 have been deferred as loan origination costs during the nine months ended September 30, 2024 and 2023, respectively. Salaries and employee benefits totaling \$599,000 and \$694,000 have been deferred as loan origination costs during the three months ended June 30, 2024 and 2023, respectively. Salaries and employee benefits totaling \$1,463,000 and \$1,071,000 have been deferred as loan origination costs during the six months ended June September 30, 2024 and 2023, respectively.

The Company assigns a risk rating to all loans and periodically, but not less than annually, performs detailed reviews of all criticized and classified loans over \$100,000 to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan.

The risk ratings can be grouped into three major categories, defined as follows:

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass-rated loans.

For other loans, which are primarily consumer loans and automobile loans the Company evaluates credit quality based on the aging status of the loan and by payment activity. Non-performing loans consist of nonaccrual loans and loans past due 90 days or more and still accruing.

Other Real Estate Owned

Other real estate owned relates to real estate acquired in full or partial settlement of loan obligations. At June September 30, 2024 other real estate owned totaled \$141,000, consisting of one single family residential real estate (SFR) property. At December 31, 2023 other real estate owned totaled \$357,000 also consisting of one SFR property. There was one consumer mortgage commercial real estate loan with a balance of \$110,000 \$53,000 secured by a SFR property for which formal foreclosure proceedings were in process at June September 30, 2024 and one consumer mortgage loan with a balance of \$122,000 secured by a SFR property for which formal foreclosure proceedings were in process at December 31, 2023.

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The following table presents the amortized cost basis of the loan portfolio allocated by management's internal risk ratings or payment activity at the dates indicated, in thousands:

(in thousands)	Amortized Cost Basis by Origination Year and Risk Grades - As of						Amortized Cost Basis by Origination Year and Risk Grades - As of						September 30, 2024					
	June 30, 2024						September 30, 2024						September 30, 2024					
	2024	2023	2022	2021	2020	Prior	Revolving Loans Book Amortized Cost Basis	Revolving Loans Converted to Term Amortized Cost Basis	Total - Amortized Cost Basis	2024	2023	2022	2021	2020	Prior	Revolving Loans Book Amortized Cost Basis		
Commercial																		
Pass	\$ 10,282	\$ 14,859	\$ 18,328	\$ 10,456	\$ 2,474	\$ 8,389	14,877	\$ -	\$ 79,665	\$ 14,545	\$ 13,303	\$ 17,492	\$ 9,541	\$ 2,107	\$ 7,839		15,065	
Special Mention	84	-	-	288	150	42	53	-	617	83	16	177	464	-	39		48	
Substandard	-	-	1,016	242	322	36	22	-	1,638	-	293	995	263	485	33		165	

Total	Commercial																		
loans		\$ 10,366	\$ 14,859	\$ 19,344	\$ 10,986	\$ 2,946	\$ 8,467	\$ 14,952	\$ -	\$ 81,920	\$ 14,628	\$ 13,612	\$ 18,664	\$ 10,268	\$ 2,592	\$ 7,911	\$ 15,278		
Current period gross	charge-offs	\$ -	\$ -	\$ 43	\$ -	\$ -	\$ 22	\$ -	\$ -	\$ 65	\$ -	\$ -	\$ 43	\$ -	\$ -	\$ 22	\$ -		
Agricultural																			
Pass		\$ 5,687	\$ 9,607	\$ 16,278	\$ 12,747	\$ 14,562	\$ 29,520	\$ 15,839	\$ -	\$ 104,240	\$ 5,465	\$ 8,398	\$ 15,322	\$ 11,482	\$ 14,351	\$ 28,761	\$ 14,067		
Special Mention		1,591	182	755	95	1,324	1,688	583	-	6,218	2,159	56	1,237	358	1,400	1,476	2,097		
Substandard		-	4,028	4,970	3,072	-	1,418	-	-	13,488	-	2,710	5,225	3,772	-	1,281	2,358		
Total Agricultural		\$ 7,278	\$ 13,817	\$ 22,003	\$ 15,914	\$ 15,886	\$ 32,626	\$ 16,422	\$ -	\$ 123,946	\$ 7,624	\$ 11,164	\$ 21,784	\$ 15,612	\$ 15,751	\$ 31,518	\$ 18,522		
Current period gross	charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Real Estate																			
Residential																			
Pass		\$ 386	\$ 1,116	\$ -	\$ 2,104	\$ 2,404	\$ 5,063	\$ 442	\$ -	\$ 11,515	\$ 384	\$ 1,111	\$ -	\$ 2,087	\$ 2,380	\$ 4,954	\$ 521		
Substandard		-	-	-	-	-	269	-	-	269	-	-	-	-	-	262	-		
Total Real Estate	Residential																		
		\$ 386	\$ 1,116	\$ -	\$ 2,104	\$ 2,404	\$ 5,332	\$ 442	\$ -	\$ 11,784	\$ 384	\$ 1,111	\$ -	\$ 2,087	\$ 2,380	\$ 5,216	\$ 521		
Current period gross	charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Real Estate																			
Commercial																			
Pass		\$ 49,392	\$ 76,135	\$ 126,619	\$ 83,738	\$ 75,846	\$ 165,460	\$ 6,931	\$ -	\$ 584,121	\$ 64,859	\$ 83,296	\$ 137,108	\$ 83,211	\$ 74,350	\$ 161,143	\$ 6,724		
Special Mention		-	-	-	-	-	2,828	-	-	2,828	255	-	173	-	-	3,356	452		
Substandard		-	-	11	-	331	1,523	-	-	1,865	-	-	620	-	742	2,511	-		
Total Real Estate	Commercial																		
		\$ 49,392	\$ 76,135	\$ 126,630	\$ 83,738	\$ 76,177	\$ 169,811	\$ 6,931	\$ -	\$ 588,814	\$ 65,114	\$ 83,296	\$ 137,901	\$ 83,211	\$ 75,092	\$ 167,010	\$ 7,176		
Current period gross	charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Real Estate																			
Construction																			
Pass		\$ 10,137	\$ 28,743	\$ 20,920	\$ 4,071	\$ 967	\$ 868	\$ 1,788	\$ -	\$ 67,494	\$ 12,858	\$ 26,111	\$ 9,181	\$ 3,679	\$ 959	\$ 854	\$ -		
Special Mention											-	-	210	-	-	-	-		
Substandard		114	-	-	-	-	-	-	-	114	112	-	-	-	-	-	-		
Total Real Estate	Construction																		
		\$ 10,251	\$ 28,743	\$ 20,920	\$ 4,071	\$ 967	\$ 868	\$ 1,788	\$ -	\$ 67,608	\$ 12,970	\$ 26,111	\$ 9,391	\$ 3,679	\$ 959	\$ 854	\$ -		
Current period gross	charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Equity LOC																			
Pass		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,758	\$ 2,928	\$ 38,686	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,479	
Substandard		-	-	-	-	-	-	-	-	330	298	628	-	-	-	-	-	259	
Total Equity LOC		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,088	\$ 3,226	\$ 39,314	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,738	
Current period gross	charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Total																			
Pass		\$ 75,884	\$ 130,460	\$ 182,145	\$ 113,116	\$ 96,253	\$ 209,300	\$ 75,635	\$ 2,928	\$ 885,721	\$ 98,111	\$ 132,219	\$ 179,103	\$ 110,000	\$ 94,147	\$ 203,551	\$ 70,856		
Special Mention		1,675	182	755	383	1,474	4,558	636	-	9,663	2,497	72	1,797	822	1,400	4,871	2,597		
Substandard		114	4,028	5,997	3,314	653	3,246	352	298	18,002	112	3,003	6,840	4,035	1,227	4,087	2,782		
Total		\$ 77,673	\$ 134,670	\$ 188,897	\$ 116,813	\$ 98,380	\$ 217,104	\$ 76,623	\$ 3,226	\$ 913,386	\$ 100,720	\$ 135,294	\$ 187,740	\$ 114,857	\$ 96,774	\$ 212,509	\$ 76,235		

Current period gross charge-offs	\$ - \$ - \$ 43 \$ - \$ 22 \$ - \$ - \$ 65 \$ - \$ - \$ 43 \$ - \$ - \$ 22 \$ -	
Auto		
Performing	\$ - \$ 27,576 \$ 27,047 \$ 13,237 \$ 6,536 \$ 6,660 \$ - \$ - \$ 81,056 \$ - \$ 25,247 \$ 24,649 \$ 11,642 \$ 5,548 \$ 5,175 \$ -	
Non-performing	- 140 166 178 179 191 - - 854 - 242 247 255 225 154 -	
Total Auto	\$ - \$ <u>27,716</u> \$ <u>27,213</u> \$ <u>13,415</u> \$ <u>6,715</u> \$ <u>6,851</u> \$ - \$ - \$ <u>81,910</u> \$ - \$ <u>25,489</u> \$ <u>24,896</u> \$ <u>11,897</u> \$ <u>5,773</u> \$ <u>5,329</u> \$ -	
Current period gross charge-offs	\$ - \$ 174 \$ 358 \$ 95 \$ 96 \$ 173 \$ - \$ - \$ 896 \$ - \$ 296 \$ 519 \$ 154 \$ 104 \$ 219 \$ -	
Other		
Performing	\$ 1,639 \$ 1,714 \$ 1,074 \$ 538 \$ 143 \$ 29 \$ 159 \$ - \$ 5,296 \$ 2,248 \$ 1,481 \$ 936 \$ 436 \$ 112 \$ 11 \$ 155	
Non-performing	- - 7 - - - 7 - - - 14 - - -	
Total Other	\$ 1,639 \$ 1,714 \$ 1,081 \$ 538 \$ 143 \$ 29 \$ 159 \$ - \$ 5,303 \$ 2,248 \$ 1,481 \$ 950 \$ 436 \$ 112 \$ 11 \$ 155	
Current period gross charge-offs	\$ - \$ 4 \$ 5 \$ 31 \$ - \$ 9 \$ - \$ - \$ 49 \$ - \$ 4 \$ 11 \$ 31 \$ 6 \$ 12 \$ 1	
Total		
Performing	\$ 1,639 \$ 29,290 \$ 28,121 \$ 13,775 \$ 6,679 \$ 6,689 \$ 159 \$ - \$ 86,352 \$ 2,248 \$ 26,728 \$ 25,585 \$ 12,078 \$ 5,660 \$ 5,186 \$ 155	
Non-performing	- 140 173 178 179 191 - - 861 - 242 261 255 225 154 -	
Total	\$ 1,639 \$ 29,430 \$ 28,294 \$ 13,953 \$ 6,858 \$ 6,880 \$ 159 \$ - \$ 87,213 \$ 2,248 \$ 26,970 \$ 25,846 \$ 12,333 \$ 5,885 \$ 5,340 \$ 155	
Total Loans	\$ 79,312 \$ 164,100 \$ 217,191 \$ 130,766 \$ 105,238 \$ 223,984 \$ 76,782 \$ 3,226 \$ 1,000,599 \$ 102,968 \$ 162,264 \$ 213,586 \$ 127,190 \$ 102,659 \$ 217,849 \$ 76,390	
Total gross charge-offs	\$ - \$ 178 \$ 406 \$ 126 \$ 96 \$ 204 \$ - \$ - \$ 1,010 \$ - \$ 300 \$ 573 \$ 185 \$ 110 \$ 253 \$ 1	

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Term Loans													
Amortized Cost Basis by Origination Year and Risk Grades - As of December 31, 2023													
(in thousands)	2023		2022		2021		2020		2019		Prior		Revolving loans
	Commercial	Residential											
Commercial													Revolving loans
Pass	\$ 15,549	\$ 18,995	\$ 11,603	\$ 3,472	\$ 4,291	\$ 5,165	\$ 13,079	\$ -	\$ 72,154	\$ -	\$ -	\$ -	Revolving loans
Special Mention	-	-	302	-	31	68	170	-	-	-	-	-	Revolving loans
Substandard	-	1,532	289	340	-	24	23	-	-	-	-	-	Revolving loans
Total Commercial loans	\$ 15,549	\$ 20,527	\$ 12,194	\$ 3,812	\$ 4,322	\$ 5,257	\$ 13,272	\$ -	\$ 74,933	\$ -	\$ -	\$ -	Revolving loans
Current period gross charge-offs	\$ -	\$ 34	\$ 40	\$ 14	\$ -	\$ 10	\$ 25	\$ -	\$ 123	\$ -	\$ -	\$ -	Revolving loans
Agricultural													Converted Loans to term
Pass	\$ 12,028	\$ 17,382	\$ 13,182	\$ 15,550	\$ 11,495	\$ 20,704	\$ 18,925	\$ -	\$ 109,266	\$ -	\$ -	\$ -	Converted Loans to term
Special Mention	1,852	813	97	1,017	16	817	621	-	-	-	-	-	Converted Loans to term
Substandard	6,226	6,878	1,075	-	752	248	-	-	-	-	-	-	Converted Loans to term
Total Agricultural	\$ 20,106	\$ 25,073	\$ 14,354	\$ 16,567	\$ 12,263	\$ 21,769	\$ 19,546	\$ -	\$ 129,678	\$ -	\$ -	\$ -	Converted Loans to term
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Converted Loans to term
Real Estate - Residential													Book Balance
Pass	\$ 1,127	\$ -	\$ 2,143	\$ 2,447	\$ 524	\$ 4,676	\$ 201	\$ -	\$ 11,118	\$ -	\$ -	\$ -	Book Balance
Substandard	-	-	-	-	59	765	-	-	-	-	-	-	Book Balance

Total Real Estate - Residential	\$ 1,127	\$ -	\$ 2,143	\$ 2,447	\$ 583	\$ 5,441	\$ 201	\$ -	\$ 11,942
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate -Commercial									
Pass	\$ 74,595	\$ 115,890	\$ 90,436	\$ 76,401	\$ 40,256	\$ 133,958	\$ 6,246	-	\$ 537,782
Special Mention	-	-	-	199	-	3,316	-	-	3,515
Substandard	-	12	-	281	353	2,271	-	-	2,917
Total Real Estate -Commercial	\$ 74,595	\$ 115,902	\$ 90,436	\$ 76,881	\$ 40,609	\$ 139,545	\$ 6,246	-	\$ 544,214
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate -Construction									
Pass	\$ 18,878	\$ 30,825	\$ 3,717	\$ 1,672	\$ 619	\$ 281	\$ 1,368	\$ -	\$ 57,360
Total Real Estate -Construction	\$ 18,878	\$ 30,825	\$ 3,717	\$ 1,672	\$ 619	\$ 281	\$ 1,368	\$ -	\$ 57,360
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity LOC									
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,122	\$ 3,018	\$ 38,140
Substandard	-	-	-	-	-	-	319	254	573
Total Equity LOC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,441	\$ 3,272	\$ 38,713
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total									
Pass	\$ 122,177	\$ 183,092	\$ 121,081	\$ 99,542	\$ 57,185	\$ 164,784	\$ 74,941	\$ 3,018	\$ 825,820
Special Mention	1,852	813	399	1,216	47	4,201	791	-	9,319
Substandard	6,226	8,422	1,364	621	1,164	3,308	342	254	21,701
Total	\$ 130,255	\$ 192,327	\$ 122,844	\$ 101,379	\$ 58,396	\$ 172,293	\$ 76,074	\$ 3,272	\$ 856,840
Current period gross charge-offs	\$ -	\$ 34	\$ 40	\$ 14	\$ -	\$ 10	\$ 25	\$ -	\$ 123
Auto									
Performing	\$ 31,880	\$ 31,913	\$ 16,246	\$ 8,554	\$ 6,329	\$ 3,689	\$ -	\$ -	\$ 98,611
Non-performing	167	228	179	210	228	37	-	-	1,049
Total Auto	\$ 32,047	\$ 32,141	\$ 16,425	\$ 8,764	\$ 6,557	\$ 3,726	\$ -	\$ -	\$ 99,660
Current period gross charge-offs	\$ -	\$ 367	\$ 569	\$ 237	\$ 255	\$ 122	\$ -	\$ -	\$ 1,550
Other									
Performing	\$ 2,411	\$ 1,354	\$ 719	\$ 252	\$ 57	\$ 15	\$ 159	\$ -	\$ 4,967
Non-performing	-	4	-	-	-	-	-	-	4
Total Other	\$ 2,411	\$ 1,358	\$ 719	\$ 252	\$ 57	\$ 15	\$ 159	\$ -	\$ 4,971
Current period gross charge-offs	\$ -	\$ 70	\$ 33	\$ 9	\$ 12	\$ 3	\$ 2	\$ -	\$ 129
Total									
Performing	\$ 34,291	\$ 33,267	\$ 16,965	\$ 8,806	\$ 6,386	\$ 3,704	\$ 159	\$ -	\$ 103,578
Non-performing	167	232	179	210	228	37	-	-	1,053
Total	\$ 34,458	\$ 33,499	\$ 17,144	\$ 9,016	\$ 6,614	\$ 3,741	\$ 159	\$ -	\$ 104,631
Total Loans	\$ 164,713	\$ 225,826	\$ 139,988	\$ 110,395	\$ 65,010	\$ 176,034	\$ 76,233	\$ 3,272	\$ 961,471
Total gross charge-offs	\$ -	\$ 471	\$ 642	\$ 260	\$ 267	\$ 135	\$ 27	\$ -	\$ 1,802

The following table shows the ending balance of nonaccrual loans by loan category as of the date indicated:

(in thousands)	Non Performing Loans								Non Performing Loans							
	June 30, 2024				December 31, 2023				September 30, 2024				December 31, 2023			
	Nonaccrual with no allowance for credit losses		Past due 90 days or more and still accruing		Nonaccrual with no allowance for credit losses		Past due 90 days or more and still accruing		Nonaccrual with no allowance for credit losses		Past due 90 days or more and still accruing		Nonaccrual with no allowance for credit losses		Past due 90 days or more and still accruing	
Commercial	\$ 64	\$ 118	\$ -	\$ 75	\$ 132	\$ -	\$ 333	\$ 387	\$ -	\$ 75	\$ 132	\$ -				
Agricultural	-	-	6,152	2,066	2,066	-	567	567	-	2,066	2,066	-				
Real estate – residential	95	95	-	223	223	-	89	89	-	223	223	-				
Real estate – commercial	846	846	274	774	774	-	1,729	1,729	-	774	774	-				
Real estate – construction & land development	-	-	-	-	-	-	-	-	-	-	-	-				
Equity lines of credit	628	628	-	572	572	-	546	546	-	572	572	-				
Auto	854	854	-	1,049	1,049	-	1,123	1,123	-	1,049	1,049	-				
Other	7	7	-	4	4	-	14	14	-	4	4	-				
Total Gross Loans	\$ 2,494	\$ 2,548	\$ 6,426	\$ 4,763	\$ 4,820	\$ -	\$ 4,401	\$ 4,455	\$ -	\$ 4,763	\$ 4,820	\$ -				

The Company places loans 90 days or more past due on nonaccrual status unless the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 90 days. When a loan is placed on nonaccrual status the Company's general policy is to reverse and charge against current income previously accrued but unpaid interest. Interest income on such loans is subsequently recognized only to the extent that cash is received, and future collection of principal is deemed by management to be probable. Where the collectability of the principal or interest on a loan is considered to be doubtful by management, it is placed on nonaccrual status prior to becoming 90 days delinquent.

The following tables show interest reversed against interest income for loans placed on nonaccrual status during the three and **six nine** months ended **June September** 30, 2024 and 2023.

Three months ended:

(in thousands)		June 30, 2024	June 30,2023	September 30, 2024		September 30, 2023	
				\$	6	\$	4
Commercial							
Agricultural							29
Real estate – commercial		\$ -	\$ 19			26	4
Equity Lines of Credit		-	1				
Auto		7	9			12	8
Other						-	1
Total		\$ 7	\$ 29	\$ 73	\$ 17		

Six months ended:

Nine months ended:

(in thousands)		June 30, 2024	June 30,2023	September 30, 2024		September 30, 2023	
				\$	4	\$	6
Commercial				\$	4	\$	6
Agricultural				-		29	41
Real estate – residential		9	-			9	-

Real estate – commercial	14	19	40	23
Equity Lines of Credit	10	5	10	5
Auto	9	20	21	28
Other			-	1
Total	\$ 46	\$ 87	\$ 119	\$ 104

On **June** **September** 30, 2024, there was one commercial nonaccrual loan with an amortized cost of \$54,000 that had an allowance for credit losses totaling \$27,000. **\$26,000**. On December 31, 2023, there was one commercial nonaccrual loan with an amortized cost of \$57,000 that had an allowance for credit losses totaling \$28,000. No income was recognized on nonaccrual loans accounted on a cash basis during the **six** **nine** months ended **June** **September** 30, 2024 and 2023.

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The following table presents the amortized cost basis of loans at **June** **September** 30, 2024, that were both experiencing financial difficulty and modified during the **six** **three** months ended **June** **September** 30, 2024, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financial receivable is also presented below. **There were no loans modified during the three months ended June 30, 2024 to borrowers experiencing financial difficulty.**

	<i>(in thousands)</i>	Term Extension	
		Amortized Cost Basis	Total Class of Financing Receivable
Agricultural		2,357	1.93 %

	<i>(in thousands)</i>	Term Extension	
		Amortized Cost Basis	Total Class of Financing Receivable
Commercial		34	0.04 %

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The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty **at as of June** **September** 30, 2024:

	<i>(in thousands)</i>	Weighted-Average Term Extension (in months)	
		Amortized Cost Basis	Total Class of Financing Receivable
Agricultural			6.0

The following table presents the amortized cost basis of loans at September 30, 2024, that were both experiencing financial difficulty and modified during then nine months ended September 30, 2024, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financial receivable is also presented below.

	<i>(in thousands)</i>	Term Extension	
		Amortized Cost Basis	Total Class of Financing Receivable
Commercial		32	0.04 %
Agricultural		2,413	1.98 %
Total		\$ 2,445	0.24 %

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty as of September 30, 2024:

	<i>(in thousands)</i>	Weighted-Average Term Extension (in months)	
		Amortized Cost Basis	Total Class of Financing Receivable
Commercial		6.0	
Agricultural		7.3	
Total		7.2	

The following table presents the amortized cost basis of loans at **June** **September** 30, 2023, that were both experiencing financial difficulty and modified during **the then** three and six months ended **June** **September** 30, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financial receivable is also presented below.

	(in thousands)	Term Extension		Term Extension	
		Amortized Cost Basis	Total Class of Financing Receivable	Amortized Cost Basis	Total Class of Financing Receivable
Commercial		1,499	1.98%		
Agricultural		5,246	4.12%	837	0.64%
Total		\$ 6,745	0.72%		

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty as of **June** September 30, 2023:

	Weighted-Average Term Extension (in months)
Agricultural	7.0

The following table presents the amortized cost basis of loans at September 30, 2023, that were both experiencing financial difficulty and modified during then nine months ended September 30, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financial receivable is also presented below.

	Term Extension	
(in thousands)	Amortized Cost Basis	Total Class of Financing Receivable
Commercial	1,489	1.92 %
Agricultural	4,367	3.32 %
Total	\$ 5,856	0.62 %

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty as of September 30, 2023:

	Weighted-Average Term Extension (in months)
Commercial	6.0
Agricultural	10.0
Total	9.1

Loans with payment defaults by borrowers experiencing financial difficulty during the **six** nine months ended **June** September 30, 2024, which had material modifications in rate, term or principal forgiveness during the twelve months prior to default totaled **\$6.2 million** **\$4.8 million** in agricultural loans, loans which were 46 days past due at September 30, 2024, and one commercial loan totaling \$32,000 which was 70 days past due at September 30, 2024. The commercial loan experienced a payment default in the current three-month period while the agricultural loans experienced payment defaults during the six months ended June 30, 2024, as well as in the current three-month period. Additionally, \$1.3 million in agricultural loans that were in payment default earlier in the year, paid off in the current quarter. There were no loans payment defaults by borrowers experiencing financial difficulty during the nine months ended September 30, 2023, which had material modifications in rate, term or principal forgiveness during the twelve months prior to default.

The following tables show the allocation of the allowance for credit losses at the dates indicated, in thousands:

Six								
Months	Real	Real	Real Estate-Construction	Equity	Auto	Other	Total	
Ended	Commercial	Agricultural	Estate-Residential	Commercial	LOC			
June 30, 2024:								
Nine								
Months								
Ended								
September								
30, 2024:								

<u>Allowance for credit losses</u>												<u>Allowance for credit losses</u>											
Beginning balance												Beginning balance											
Charge-offs												Charge-offs											
Recoveries												Recoveries											
Provision												Provision											
(Recovery of) provision for credit losses												(Recovery of) provision for credit losses											
Ending balance												Ending balance											
<u>Three Months Ended June 30, 2024:</u>												<u>Three Months Ended June 30, 2024:</u>											
<u>Three Months Ended September 30, 2024:</u>												<u>Three Months Ended September 30, 2024:</u>											
<u>Allowance for credit losses</u>												<u>Allowance for credit losses</u>											
Beginning balance												Beginning balance											
Charge-offs												Charge-offs											
Recoveries												Recoveries											
Provision												Provision											
(Recovery of) provision for credit losses												(Recovery of) provision for credit losses											
Ending balance												Ending balance											
<u>Six Months Ended June 30, 2023:</u>												<u>Six Months Ended June 30, 2023:</u>											
<u>Nine Months Ended September 30, 2023:</u>												<u>Nine Months Ended September 30, 2023:</u>											

Allowance for credit losses																				
Beginning balance	\$ 892	\$ 1,086	\$ 138	\$ 4,980	\$ 1,500	\$ 687	\$ 1,289	\$ 145	\$ 10,717	\$ 892	\$ 1,086	\$ 138	\$ 4,980	\$						
Impact of CECL Adoption	354	148	2	1,488	(951)	(421)	9	(100)	529	354	148	2	1,488							
Charge-offs	(49)	-	-	-	-	-	(604)	(85)	(738)	(108)	-	-	-							
Recoveries	12	-	2	1	-	-	305	7	327	17	-	2	2							
Provision	338	244	27	393	317	135	567	529	2,550											
(Recovery of) provision for credit losses										461	(73)	29	597							
Ending balance	\$ 1,547	\$ 1,478	\$ 169	\$ 6,862	\$ 866	\$ 401	\$ 1,566	\$ 496	\$ 13,385	\$ 1,616	\$ 1,161	\$ 171	\$ 7,067	\$						
<u>Three Months Ended June 30, 2023:</u>																				
<u>Three Months Ended September 30, 2023:</u>																				
Allowance for credit losses																				
Beginning balance	\$ 1,475	\$ 1,307	\$ 162	\$ 6,740	\$ 763	\$ 330	\$ 1,504	\$ 49	\$ 12,330	\$ 1,547	\$ 1,478	\$ 169	\$ 6,862	\$						
Charge-offs	(49)	-	-	-	-	-	(311)	(70)	(430)	(59)	-	-	-							
Recoveries	6	-	1	-	-	-	174	4	185	5	-	-	1							
Provision	115	171	6	122	103	71	199	513	1,300											
(Recovery of) provision for credit losses										123	(317)	2	204							
Ending balance	\$ 1,547	\$ 1,478	\$ 169	\$ 6,862	\$ 866	\$ 401	\$ 1,566	\$ 496	\$ 13,385	\$ 1,616	\$ 1,161	\$ 171	\$ 7,067	\$						

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The following tables summarizes summarize the activity in the reserve for unfunded commitments which is recorded on the balance sheet within other liabilities for the three and six nine months ended June September 30, 2024, and 2023.

Three months ended:

(in thousands)	June 30, 2024	June 30, 2023	September 30, 2024	September 30, 2023
Beginning balance	\$ 720	\$ 874	\$ 720	\$ 924
Provision	-	50		
Recovery of provision for credit losses		(50)	(75)	

Ending balance	\$ 720	\$ 924	\$ 670	\$ 849
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Six months ended:

(in thousands)	June 30, 2024	June 30, 2023
Beginning balance	\$ 799	\$ 341
Impact of CECL Adoption	-	258
Provision (benefit)	(79)	325
Total	\$ 720	\$ 924

Nine months ended:

(in thousands)	September 30, 2024	September 30, 2023
Beginning balance	\$ 799	\$ 341
Impact of CECL Adoption	-	258
(Recovery of) provision for credit losses	(129)	250
Ending balance	\$ 670	\$ 849

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The following tables show an aging analysis of the loan portfolio by the time past due, in thousands:

	Total										Total										
	June 30, 2024					September 30, 2024					June 30, 2023					September 30, 2023					
	30-59 Days	60-89 Days	and Still	and	Total	30-59 Days	60-89 Days	and Still	and	Total	30-59 Days	60-89 Days	and Still	and	Total	30-59 Days	60-89 Days	and Still	and	Total	
	Past Due	Past Due	Accruing	Nonaccrual	Nonaccrual	Current	Total	Past Due	Past Due	Accruing	Nonaccrual	Nonaccrual	Current	Total	Past Due	Past Due	Accruing	Nonaccrual	Total		
Commercial	\$ 1,627	\$ 875	\$ -	\$ 118	\$ 2,620	\$ 79,300	\$ 81,920	\$ 491	\$ 118	\$ -	\$ 387	\$ 996	\$ 81,957	\$ 82,950	\$ 4,833	\$ 2,966	\$ -	\$ 567	\$ 8,366	\$ 113,609	\$ 121,950
Agricultural	957	567	6,152	-	7,676	116,270	123,946	175	-	-	89	263	11,436	11,600	174	-	-	89	263	11,436	11,600
Real estate - residential	-	-	-	95	270	11,514	11,784	4,759	1,059	274	846	6,938	581,876	588,814	923	709	-	1,729	3,361	615,439	618,814
Real estate - commercial	-	-	-	-	-	-	-	2,133	1,788	-	-	3,921	63,687	67,608	857	110	-	-	967	52,997	53,950
Real estate - construction & land	-	-	-	-	-	-	-	175	-	-	-	-	-	-	175	-	-	-	-	-	-
Equity Lines of Credit	-	-	-	628	803	38,511	39,314	1,475	547	-	-	274	150	-	274	150	-	546	970	37,538	38,514
Auto	-	-	-	854	2,876	79,034	81,910	58	13	-	-	1,147	434	-	1,147	434	-	1,123	2,704	70,680	73,317
Other	-	-	-	7	78	5,225	5,303	58	13	-	-	59	7	-	59	7	-	14	80	5,313	5,303
Total	\$ 11,359	\$ 4,849	\$ 6,426	\$ 2,548	\$ 25,182	\$ 975,417	\$ 1,000,599	\$ 8,758	\$ 4,494	\$ -	\$ 4,455	\$ 17,707	\$ 988,969	\$ 1,006,600	\$ 4,849	\$ 2,548	\$ -	\$ 4,455	\$ 17,707	\$ 988,969	\$ 1,006,600

December 31, 2023	Total									
	90 Days					Past Due				
	30-89 Days	60-89 Days	and Still	and		30-89 Days	60-89 Days	and Still	and	

	Past Due	Past Due	Accruing	Nonaccrual	Nonaccrual	Current	Total
Commercial	\$ 21	\$ 254	\$ -	\$ 132	\$ 407	\$ 74,526	\$ 74,933
Agricultural	82	-	-	2,066	2,148	127,530	129,678
Real estate – residential	348	423	-	223	994	10,948	11,942
Real estate - commercial	587	-	-	774	1,361	542,853	544,214
Real estate - construction & land	-	-	-	-	-	57,360	57,360
Equity Lines of Credit	473	53	-	572	1,098	37,615	38,713
Auto	1,729	405	-	1,049	3,183	96,477	99,660
Other	19	3	-	4	26	4,945	4,971
Total	\$ 3,259	\$ 1,138	\$ -	\$ 4,820	\$ 9,217	\$ 952,254	\$ 961,471

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The following tables present the amortized cost basis of collateral dependent loans by class of loans at **June** September 30, 2024 in thousands:

	Commercial							SFR							Commercial							SFR						
	-1st			SFR-1st		SFR-2nd		SFR-3rd		-1st			1st		2nd		3rd		-1st			1st		2nd		3rd		
	Equipment	Crops	Deed	Deed	Deed	Deed	Deed	Total	Equipment	Crops	Deed	Deed	Deed	Deed	Deed	Total	Equipment	Crops	Deed	Deed	Deed	Deed	Deed	Total				
Commercial	\$ 89	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89	\$ 257	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 257													
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	535	-	-	-	-	-	-	-	-	-	-	535	
Real estate residential	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Real estate commercial	-	-	-	600	-	27	51	678	-	-	-	-	-	-	-	-	1,500	53	27	50	1,630	-	-	-	-	-		
Real estate construction & land	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Equity Lines of Credit	-	-	-	-	-	185	-	185	-	-	-	-	-	-	-	-	-	-	-	178	-	-	-	-	-	178		
Auto	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total	\$ 89	\$ -	\$ 600	\$ -	\$ 212	\$ 51	\$ 952	\$ 257	\$ 535	\$ 1,500	\$ 53	\$ 205	\$ 50	\$ 2,600														

The following tables present the amortized cost basis of collateral dependent loans by class of loans at December 31, 2023 in thousands:

	Commercial							SFR							Commercial							SFR						
	-1st			SFR-1st		SFR-2nd		SFR-3rd		-1st			1st		2nd		3rd		-1st			1st		2nd		3rd		
	Equipment	Crops	Deed	Deed	Deed	Deed	Total	Equipment	Crops	Deed	Deed	Deed	Deed	Deed	Total	Equipment	Crops	Deed	Deed	Deed	Deed	Deed	Total					
Commercial	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,066	-	-	-	-	-	-	\$ 55													
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,066			
Real estate – residential	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	122	-	-	-	-	-	-	-	-	-	122		
Real estate – commercial	-	-	-	-	-	634	-	-	-	-	-	-	-	-	-	28	-	-	-	-	-	-	-	-	-	662		
Real estate - construction & land	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Equity Lines of Credit	-	-	-	-	-	-	-	-	-	105	-	-	-	-	-	190	-	-	-	-	-	-	-	-	-	295		
Auto	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total	\$ 55	\$ 2,066	\$ 634	\$ 227	\$ 218	\$ -	\$ 3,200																					

5. COMMITMENTS AND CONTINGENCIES

The Company is party to claims and legal proceedings arising in the ordinary course of business. In the opinion of the Company's management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or result of operations of the Company taken as a whole. In the normal course of business, there are various outstanding commitments to extend credit, which are not reflected in the financial statements, including loan commitments of \$162.4 million \$158.7 million and \$174.6 million and stand-by letters of credit of \$0 and \$108,000 at June September 30, 2024 and December 31, 2023, respectively.

Of the loan commitments outstanding at June September 30, 2024, \$25.6 million \$23.9 million are real estate construction loan commitments that are expected to fund within the next twelve months. The remaining commitments primarily relate to revolving lines of credit or other commercial loans, and many of these are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Each loan commitment and the amount and type of collateral obtained, if any, are evaluated on an individual basis. Collateral held varies, but may include real property, bank deposits, debt or equity securities or business assets. The reserve for unfunded commitments at June September 30, 2024 and December 31, 2023 totaled \$720,000 \$670,000 and \$799,000, respectively.

Stand-by letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and accordingly, evaluation and collateral requirements similar to those for loan commitments are used.

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6. EARNINGS PER SHARE

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted earnings per share.

(In thousands, except per share data)	For the Three Months Ended		For the Six Months Ended		For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,		September 30,	September 30,	2024	2023
	2024	2023	2024	2023	2024	2023	2024	2023
Net Income:								
Net income	\$ 6,786	\$ 6,660	\$ 13,040	\$ 14,285	\$ 7,830	\$ 7,970	\$ 20,870	\$ 22,255
Earnings Per Share:								
Basic earnings per share	\$ 1.15	\$ 1.14	\$ 2.21	\$ 2.44	\$ 1.33	\$ 1.36	\$ 3.54	\$ 3.80
Diluted earnings per share	\$ 1.14	\$ 1.12	\$ 2.19	\$ 2.41	\$ 1.31	\$ 1.34	\$ 3.50	\$ 3.75
Weighted Average Number of Shares Outstanding:								
Basic shares	5,896	5,862	5,892	5,858	5,896	5,866	5,893	5,861
Effect of dilutive of stock options and restricted stock	50	67	54	74	72	66	63	71
Diluted shares	5,946	5,929	5,946	5,932	5,968	5,932	5,956	5,932

There were no stock options having an antidilutive effect during the three-month and six nine-month periods ended June September 30, 2024, and 2023.

7. STOCK-BASED COMPENSATION

In May 2022, the Company's shareholders approved the 2022 Equity Incentive Plan (the "2022 Plan"), which provides for the grant of up to 576,550 shares of common stock, including 126,550 shares that remained available for grant under the 2013 Stock Option Plan when the 2022 Plan was adopted. The 2022 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The frequency, amount and terms of stock-based awards may be determined by the Board of Directors or its compensation committee, consistent with the terms and purposes of the 2022 plan.

In May 2013, the Company established the 2013 Stock Option Plan for which 141,447 139,847 shares of common stock are reserved. With the establishment of the Company's 2022 Equity Incentive Plan, no further options may be issued under the 2013 Stock Option Plan, though options previously granted continue to be outstanding and governed by the 2013 Stock Option Plan.

107,200 options were granted under the 2022 Plan during the **six** **nine** months ended **June** **September** 30, 2024. The fair value of each option was estimated on the date of grant using the following assumptions.

	2024	2024
Expected life of stock options (in years)	6.2	6.2
Risk free interest rate	3.98%	3.98%
Annualized Volatility	32.3%	32.3%
Dividend yields	3.17%	3.17%
Weighted-average fair value of options granted during the three months ended June 30, 2024	\$ 9.25	
Weighted-average fair value of options granted during the nine months ended September 30, 2024		\$ 9.25

No options were granted during 2023.

A summary of the activity within the 2013 Plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Intrinsic Value	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Weighted Average Intrinsic Value	
								Exercise Price	Contractual Term in Years
Options outstanding at January 1, 2023	189,917	\$ 21.14			189,917	\$ 21.14			
Options exercised	(24,400)	18.59			(24,400)	18.59			
Options outstanding at December 31, 2023	165,517	\$ 21.52			165,517	\$ 21.52			
Options exercised	(24,070)	15.18			(25,670)	15.75			
Options outstanding at June 30, 2024	141,447	\$ 22.60	2.8	\$ 1,892,476					
Options exercisable at June 30, 2024	141,447	\$ 22.60	2.8	\$ 1,892,476					
Options outstanding at September 30, 2024					139,847	\$ 22.58	2.5	\$ 2,545,215	
Options exercisable at September 30, 2024					139,847	\$ 22.58	2.5	\$ 2,545,215	

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A summary of the activity within the 2022 Plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Intrinsic Value	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Weighted Average Intrinsic Value	
								Exercise Price	Contractual Term in Years
Options outstanding at January 1, 2023	117,200	\$ 31.00			117,200	\$ 31.00			
Options cancelled	(10,400)	31.00			(10,400)	31.00			
Options exercised	(1,300)	31.00			(1,300)	31.00			
Options outstanding at December 31, 2023	105,500	\$ 31.00			105,500	\$ 31.00			
Options granted	107,200	34.07			107,200	34.07			
Options cancelled	(1,200)	34.07			(1,200)	34.07			

Options exercised	(1,300)	31.00	(1,300)	31.00
Options outstanding at June 30, 2024	210,200	\$ 32.55	8.71	\$ 721,385
Options exercisable at June 30, 2024	21,800	\$ 31.00	7.69	\$ 108,564
Expected to vest after June 30, 2024	162,363	\$ 32.73	8.83	\$ 527,680
Options outstanding at September 30, 2024			210,200	\$ 32.55
Options exercisable at September 30, 2024			43,600	\$ 31.00
Expected to vest after September 30, 2024			143,576	\$ 32.95

As of **June** **September** 30, 2024, there was **\$1.7** **\$1.4** million **in** total unrecognized compensation cost related to non-vested stock options under the 2022 plan. That cost is expected to be recognized over a weighted average period of **4.0** **3.7** years. There were no unrecognized costs remaining under the 2013 plan as of **June** **September** 30, 2024.

Information related to the stock options plans during the three months ended September 30, 2024, and 2023.

The total fair value of options vested during the six months ended June 30, 2024, and 2023 was \$7,000. The total intrinsic value of options at time of exercise was \$536,000 and \$385,000 for the six months ended June 30, 2024, and 2023, respectively.

	2024	2023
Fair value of options vested	\$ 192,000	\$ 215,000
Intrinsic value of options exercised	\$ 25,000	\$ 72,000
Cash received from option exercises	\$ -	\$ 93,000
Tax benefit from option exercises	\$ 5,000	\$ 12,000
Compensation cost	\$ 131,000	\$ 87,000
Tax benefit associated with compensation cost	\$ 13,000	\$ 7,000

Compensation cost related to stock options recognized in operating results under the stock option plans was \$131,000 and \$86,000 for the three months ended June 30, 2024, and 2023, respectively. The associated income tax benefit recognized was \$13,000 and \$6,000 for the three months ended June 30, 2024, and 2023, respectively. Compensation cost related to stock options recognized in operating results under the stock option plans was \$219,000 and \$173,000 for the six months ended June 30, 2024, and 2023, respectively.

The associated income tax benefit recognized was \$20,000 and \$13,000 for the six months ended June 30, 2024, and 2023, respectively.

Information related to the stock options plans during the nine months ended September 30, 2024, and 2023.

Cash received from option exercises under the plans for the six months ended June 30, 2024, and 2023 was \$367,000 and \$168,000, respectively. The tax benefit realized for the tax deductions from option exercise totaled \$69,000 and \$63,000 for the six months ended June 30, 2024, and 2023, respectively.

	2024	2023

Fair value of options vested	\$ 199,000	\$ 222,000
Intrinsic value of options exercised	\$ 561,000	\$ 457,000
Cash received from option exercises	\$ 367,000	\$ 261,000
Tax benefit from option exercises	\$ 74,000	\$ 75,000
Compensation cost	\$ 350,000	\$ 260,000
Tax benefit associated with compensation cost	\$ 33,000	\$ 19,000

During the **six** **nine** months ended **June** **September** 30, 2024, the Company granted 3,033 restricted stock units with a fair value of \$34.07 per share and a one-year vesting period. Compensation costs related to these units during the three and **six** **nine** months ended **June** **September** 30, 2024 were **\$25,000** **\$26,000** and **\$37,000**, **\$63,000**, respectively. As of **June** **September** 30, 2024, there was **\$66,000** **\$40,000** of total unrecognized compensation cost related to restricted stock units. That cost is expected to be recognized over a weighted average period of **0.7** **0.4** years.

During 2022, the Company granted 1,650 shares of restricted stock with a fair value of \$31 per share and a one-year vesting period. Compensation costs related to these shares during the three and **six** **nine**-months ended **June** **September** 30, 2023 totaled **\$13,000** **\$21,000** and **\$26,000**, **\$4,000**, respectively. There were no compensation costs related to these shares in 2024.

8. INCOME TAXES

The Company files its income taxes on a consolidated basis with its subsidiary. Income tax expense is the total of current year income tax due or refundable and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statements of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the **six** **nine** months ended **June** **September** 30, 2024, and 2023.

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9. FAIR VALUE MEASUREMENT

The Company measures fair value under the fair value hierarchy described below.

Level 1: Quoted prices for identical instruments traded in active exchange markets.

Level 2: Quoted prices (unadjusted) for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3: Model based techniques that use one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at **June** **September** 30, 2024 follows, in thousands:

	Fair Value Measurements at June 30, 2024, Using:					Fair Value Measurements at September 30, 2024, Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:										
Cash and cash equivalents	\$ 109,852	\$ 109,852	\$ -	\$ -	\$ 109,852	\$ 117,959	\$ 117,959	\$ -	\$ -	\$ 117,959
Investment securities	445,132	-	445,132	-	445,132	456,720	-	456,720	-	456,720
Loans, net	986,517	-	-	946,667	946,667	993,070	-	-	973,768	973,768
FHLB stock	6,234	-	-	-	N/A	6,234	-	-	-	N/A
FRB Stock	1,375	-	-	-	N/A	1,377	-	-	-	N/A
Financial liabilities:										
Deposits	1,304,587	1,206,796	97,172	-	1,303,968	1,350,996	1,248,755	102,354	-	1,351,109
Repurchase agreements	13,870	-	13,870	-	13,870	16,992	-	16,992	-	16,992
Borrowings	120,000	-	-	116,377	116,377	75,000	-	-	72,734	72,734

The carrying amounts and estimated fair values of financial instruments, at December 31, 2023 follows, in thousands:

	Fair Value Measurements at December 31, 2023 Using:					Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3		
Financial assets:						
Cash and cash equivalents	\$ 85,655	\$ 85,655	\$ 85,655	\$ 85,655	\$ 85,655	\$ 85,655
Investment securities	489,181		489,181			489,181
Loans, net	948,604				\$ 923,500	\$ 923,500
FHLB stock	6,234					N/A
FRB Stock	1,371					N/A
Financial liabilities:						
Deposits	1,333,655	1,242,003	92,311			1,334,314
Repurchase agreements	23,054		23,054			23,054
Borrowings	90,000			86,100		86,100

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. Those estimates that are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision are included in Level 3. Changes in assumptions could significantly affect the fair values presented.

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of **June** **September** 30, 2024 and December 31, 2023, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Assets and liabilities measured at fair value on a recurring basis at **June** **September** 30, 2024 are summarized below, in thousands:

	Fair Value Measurements at June 30, 2024 Using						Fair Value Measurements at September 30, 2024 Using					
	Quoted Prices in Active Markets for Identical Assets			Prices in Significant Other Inputs			Quoted Prices in Active Markets for Identical Assets			Prices in Significant Other Inputs		
	Active	Significant	Markets for Identical Assets	Other	Significant	Markets for Identical Assets	Other	Significant	Markets for Identical Assets	Other	Significant	Markets for Identical Assets
			Identical Assets	Inputs	Inputs	Identical Assets	Inputs	Inputs	Identical Assets	Inputs	Inputs	Identical Assets
	Total Fair Value	(Level 1)	(Level 2)	(Level 3)		Total Fair Value	(Level 1)	(Level 2)	(Level 3)			
	Assets:											
U.S. Treasury securities	\$ 3,959	\$ -	\$ 3,959	\$ -		\$ 3,991	\$ -	\$ 3,991	\$ -			
U.S. Government-sponsored agencies collateralized by mortgage obligations- residential	226,275	-	226,275	-		235,686	-	235,686	-			
U.S. Government agencies collateralized by mortgage obligations-commercial	126,287	-	126,287	-		127,384	-	127,384	-			
Obligations of states and political subdivisions	88,611	-	88,611	-		89,659	-	89,659	-			
	\$ 445,132	\$ -	\$ 445,132	\$ -		\$ 456,720	\$ -	\$ 456,720	\$ -			

Assets and liabilities measured at fair value on a recurring basis at December 31, 2023 are summarized below, in thousands:

	Fair Value Measurements at December 31, 2023 Using					
	Quoted Prices in Active Markets for Identical Assets			Prices in Significant Other Inputs		
	Active	Significant	Markets for Identical Assets	Other	Significant	Unobservable
			Identical Assets	Inputs	Inputs	Inputs
	Total Fair Value	(Level 1)	(Level 2)	(Level 3)		
	Assets:					
U.S. Treasury securities	\$ 6,880	\$ -	\$ 6,880	\$ -		
U.S. Government-sponsored agencies collateralized by mortgage obligations - residential	235,931	-	235,931	-		
U.S. Government-agencies collateralized by mortgage obligations - commercial	115,952	-	115,952	-		
Obligations of states and political subdivisions	130,418	-	130,418	-		
	\$ 489,181	\$ -	\$ 489,181	\$ -		

The fair value of securities available-for-sale equals quoted market price, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities or matrix pricing. There were no changes in the valuation techniques used during 2024 or 2023. Transfers between hierarchy measurement levels are recognized by the Company as of the beginning of the reporting period. Changes in fair market value are recorded in other comprehensive income.

Assets and liabilities measured at fair value on a non-recurring basis at **June September** 30, 2024 are summarized below, in thousands:

	Fair Value Measurements at June 30, 2024 Using						Fair Value Measurements at September 30, 2024 Using					
	Quoted Prices in Active Markets for Identical Assets			Significant Other Inputs			Quoted Prices in Active Markets for Identical Assets			Significant Other Inputs		
	Active	Significant	Markets for	Other	Significant	Markets for	Active	Significant	Markets for	Other	Significant	
			Identical Assets	Observable Inputs	Unobservable Inputs	Identical Assets	Observable Inputs	Unobservable Inputs	Identical Assets	Observable Inputs	Unobservable Inputs	
	Total Fair Value	(Level 1)	(Level 2)	(Level 3)		Total Fair Value	(Level 1)	(Level 2)	(Level 3)			
Assets:												
Collateral-dependent loans												
Commercial		30	-	-	-	30	\$ 28	\$ -	\$ -	\$ -	\$ -	28
Other Real Estate Owned:												
RE – Residential		141	\$ -	\$ -	\$ -	141	\$ 141	\$ -	\$ -	\$ -	\$ -	141

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2023 are summarized below, in thousands:

	Fair Value Measurements at December 31, 2023 Using						Fair Value Measurements at December 31, 2023 Using					
	Quoted Prices in Active Markets for Identical Assets			Significant Other Inputs			Quoted Prices in Active Markets for Identical Assets			Significant Other Inputs		
	Active	Significant	Markets for	Other	Significant	Markets for	Active	Significant	Markets for	Other	Significant	
			Identical Assets	Observable Inputs	Unobservable Inputs	Identical Assets	Observable Inputs	Unobservable Inputs	Identical Assets	Observable Inputs	Unobservable Inputs	
	Total	(Level 1)	(Level 2)	(Level 3)		Total	(Level 1)	(Level 2)	(Level 3)			
Assets:												
Collateral-dependent loans												
Commercial		\$ 27	\$ -	\$ -	\$ -	27	\$ 27	\$ -	\$ -	\$ -	\$ -	27
Other Real Estate Owned:												
RE – Residential		357	-	-	-	357	\$ 357	\$ -	\$ -	\$ -	\$ -	357

The following methods were used to estimate fair value.

Collateral-Dependent Loans: The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect partial write-downs, through charge-offs or specific reserve allowances, that are based on fair value estimates of the underlying collateral. The fair value estimates for collateral-dependent loans are generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs (Level 3). No impairment charges were recognized during the **six nine** months ended **June September** 30, 2024, related to the above collateral-dependent loan. Impairment charges of **\$32,000** **\$28,000** were recognized during the **six nine** months ended **June September** 30, 2023, related to the above collateral dependent loans. The collateral-dependent loans at **June September** 30, 2024 and December 31, 2023 consist solely of loans which have been allocated a specific credit reserve. **Collateral-dependent loans consisted of one loan on September 30, 2024, and December 31, 2023.**

Other Real Estate: Nonrecurring adjustments to certain real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized. Fair values are generally based on third party appraisals of the property which are commonly adjusted by management to reflect current conditions and selling costs (Level 3).

Appraisals for both collateral-dependent loans and other real estate are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Loan Administration Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On a quarterly basis, the Company compares the actual selling price of similar collateral that has been liquidated to the most recent appraised value for unsold properties to determine what additional adjustment, if any, should be made to the appraisal value to arrive at fair value. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available.

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at **June September** 30, 2024 and December 31, 2023 (dollars in thousands):

Description	Fair Value				Range (Weighted Average)		Fair Value				Range (Weighted Average)	
	6/30/2024	12/31/2023	Valuation Technique	Unobservable Input	6/30/2024	12/31/2023	9/30/2024	12/31/2023	Valuation Technique	Unobservable Input	9/30/2024	12/31/2023
<u>Collateral-dependent loans</u>												
Commercial	\$ 30	\$ 27	Third Party	Management Adjustments to Reflect Current appraisals Conditions and Selling Costs	47%	48%	\$ 28	\$ 27	Third Party	Management Adjustments to Reflect Current appraisals Conditions and Selling Costs	48%	48%
Other Real Estate:	\$ 141	\$ 357	Third Party	Management Adjustments to Reflect Current appraisals Conditions and Selling Costs	39%	11%	\$ 141	\$ 357	Third Party	Management Adjustments to Reflect Current appraisals Conditions and Selling Costs	39%	11%

10. OTHER COMPREHENSIVE LOSS

The changes in the accumulated balances for each component of other comprehensive loss, net of tax for the **six** **nine** months ended **June September** 30, 2023 and **June September** 30, 2024 were as follows:

Unrealized Gains (Losses) on AFS Securities	Unrealized Gain (loss) Cash Flow Hedge	Accumulated Comprehensive Loss, net of tax	Unrealized Gains (Losses) on AFS Securities	Unrealized Gain (loss) Cash Flow Hedge	Accumulated Comprehensive Loss, net of tax

Beginning Balance, January 1, 2023	\$ (54,183)	\$ 2,002	\$ (36,756)	\$ (54,183)	\$ 2,002	\$ (36,756)
Current year-to-date other comprehensive loss	(291)	(2,002)	(1,616)	(22,003)	(2,002)	(16,909)
Ending balance, June 30, 2023	\$ (54,474)	\$ -	\$ (38,372)			
Ending balance, September 30, 2023				\$ (76,186)	\$ -	\$ (53,665)
Beginning Balance, January 1, 2024	\$ (46,088)	\$ -	\$ (32,464)	\$ (46,088)	\$ -	\$ (32,464)
Current year-to-date other comprehensive income	10,443	-	7,355	25,195	-	17,747
Ending balance, June 30, 2024	\$ (35,645)	\$ -	\$ (25,109)			
Ending balance, September 30, 2024				\$ (20,893)	\$ -	\$ (14,717)

Reclassifications out of accumulated other comprehensive loss for the **six** **nine** months ended **June** **September 30, 2024** and **June** **September 30, 2023**, were as follows:

Amounts Reclassified from Accumulated Other Comprehensive Loss						
Details about Accumulated Other Comprehensive (Loss) Components	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Affected Line Item on the Statement of Income	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Affected Line Item on the Statement of Income
<u>Cash flow hedge:</u>						
Termination of cash flow hedge	\$ -	\$ 1,707	Non-Interest Income	\$ -	\$ 1,707	Interest Income Provision
Tax effect	-	(505)	Provision for income taxes	-	(505)	for income taxes
<u>Investment securities:</u>						
Loss on sale of investment securities	19,826	-	Non-Interest Income	19,817	-	Interest Income Provision
Tax effect) (5,861	-	Provision for income taxes) (5,858	-	for income taxes
Total reclassifications for the period	\$ 13,965	\$ 1,202	Net income	\$ 13,959	\$ 1,202	Net income

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PART I – FINANCIAL INFORMATION

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

Certain matters discussed in this Quarterly Report are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among others, (1) significant increases in competitive pressures in the financial services industry; (2) changes in the interest rate environment resulting in reduced margins; (3) general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in regulatory environment; (5) loss of key personnel; (6) fluctuations in the real estate market; (7) changes in business conditions and inflation; (8) operational risks including data processing systems failures or fraud; and (9) changes in securities markets. Therefore, the information set forth herein should be carefully considered when evaluating the business prospects of Plumas Bancorp (the "Company").

When the Company uses in this Quarterly Report the words "anticipate", "estimate", "expect", "project", "intend", "commit", "believe" and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described

in this Quarterly Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and stockholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company's ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

INTRODUCTION

The following discussion and analysis sets forth certain statistical information relating to the Company as of **June 30, 2024** **September 30, 2024** and December 31, 2023 and for the three and **six-month** **nine-month** periods ended **June 30, 2024** **September 30, 2024** and 2023. This discussion should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes thereto included in Plumas Bancorp's Annual Report filed on Form 10-K for the year ended December 31, 2023.

Plumas Bancorp trades on The NASDAQ Capital Market under the ticker symbol "PLBC".

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no changes to the Company's critical accounting policies from those disclosed in the Company's 2023 Annual Report to Shareholders on Form 10-K.

SALES/LEASEBACK AND INVESTMENT RESTRUCTURING

On January 19, 2024, Plumas Bank entered into two agreements for the purchase and sale of real property (the "Sale Agreements"). One Sale Agreement provided for the sale to MountainSeed of nine properties owned and operated by Plumas Bank as branches (the "Branches") for an aggregate cash purchase price of approximately \$25.7 million. The branch portion of the sale was completed on February 14, 2024 resulting in a net gain on sale of \$19.9 million, recording of right-of-use assets totaling \$22.3 million and recording a lease liability of \$22.3 million. The second Sale Agreement **provides** **provided** for the sale to MountainSeed of up to three properties operated as non-branch administrative offices (the "Non-Branch Offices"). **This agreement was terminated in August 2024. We continue to review opportunities for an aggregate cash purchase price of \$7.9 million, assuming all the sale of the Non-Branch Offices are sold.** MountainSeed has indicated that it is unlikely that they will complete the Non-Branch transaction given the current market for office space. We are reviewing other sources for the Non-Branch Offices transaction.

Under the Sale Agreements, the parties have agreed, concurrently **Concurrently** with the closing of the sale of the **branch** properties, **to enter** **we entered** into triple net lease agreements (the "Lease Agreements") pursuant to which Plumas Bank **will lease** **leased back** each of the properties sold. Each Lease Agreement **will have** **has** an initial term of fifteen years with one 15-year renewal option. The Lease Agreements **will** provide for an annual rent of approximately **\$3.1 million** **\$2.4 million** in the aggregate for **all Properties of which \$2.4 million relates to the completed branch sale, nine properties** increased by two percent (2%) per annum for each year during the initial Term. During the renewal term, the initial rent will be the basic rent during the last year of the initial term, increased by two percent (2%) per annum for each year during the renewal term.

The gain on sales of the branches was offset by losses on the sale of approximately \$115 million in investment securities. During the **six** **nine** months ended **June 30, 2024** **September 30, 2024** we sold \$115 million in investment securities having a weighted average tax equivalent yield of 2.24% recording a \$19.8 million loss on the sales. As part of the restructuring, beginning in December 2023 and ending on March 27, 2024, we purchased \$120 million in **investments** **investment** securities having a weighted average tax equivalent yield of 5.25%.

BANK TERM FUNDING PROGRAM

The Federal Reserve Board, on June 12, 2023, announced the creation of a new Bank Term Funding Program (BTFP). The BTFP offered loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets will be valued at par. At December 31, 2023, the Company had outstanding borrowings under the BTFP totaling \$80 million. In January 2024 the Company borrowed an additional \$25 million under the BTFP for a total of \$105 million outstanding at June 30, 2024. This borrowing bears interest at the rate of 4.85% and is payable on January 17, 2025. Borrowings under the BTFP can be prepaid without penalty. There were no borrowings under the BTFP at June 30, 2023. Interest expense recognized on the BTFP borrowings for the three and six months ended June 30, 2024, totaled \$1.3 million and \$2.5 million, respectively.

RESULTS OF OPERATIONS FOR THE **SIX** **NINE** MONTHS ENDED **JUNE 30, 2024** **SEPTEMBER 30, 2024**

Net Income. The Company recorded net income of **\$13.0 million** **\$20.9 million** for the **six** **nine** months ended **June 30, 2024** **September 30, 2024**, down from net income of **\$14.3 million** **\$22.3 million** for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**. An increase of **\$1.5 million** **\$2.6 million** in net interest income and declines of **\$1.1 million** **\$1.3 million** in the provision for credit losses and **\$348,000** **\$336,000** in the provision for income taxes were offset by a decline of **\$1.7** **\$1.8 million** in non-interest income and an increase of **\$2.5 million** **\$3.9 million** in non-interest expense. The annualized return on average assets was **1.61%** **1.69%** for the **six** **nine** months ended **June 30, 2024** **September**

30, 2024, down from 1.81% 1.88% for the six nine months ended June 30, 2023 September 30, 2023. The annualized return on average equity decreased from 22.7% 23.3% during the first half nine months of 2023 to 16.7% 17.2% during the current period.

The following is a detailed discussion of each component of the change in net income.

Net interest income before provision for credit losses. Driven by an increase in market rates, growth in the loan portfolio, growth in cash balances and the restructuring of a portion of our investment portfolio partially offset by an increase in interest expense, net interest income increased by \$1.5 million \$2.6 million from \$34.4 million \$52.1 million during the six nine months ended June 30, 2023 September 30, 2023, to \$35.9 million \$54.7 million for the six nine months ended June 30, 2024 September 30, 2024. The increase in net interest income includes an increase of \$5.2 million \$8.0 million in interest income partially offset by an increase of \$3.7 million \$5.4 million in interest expense.

Interest and fees on loans increased by \$3.9 million \$5.3 million related to an increase in average balance and yield. The average balance of loans during the six nine months ended June 30, 2024 September 30, 2024 was \$972 million \$982 million, an increase of \$55 million \$56 million from \$917 million \$926 million during the same period in 2023. The average yield on loans increased by 48 38 basis points from 5.73% 5.83% during the first six nine months of 2023 to 6.21% during the current period.

Interest on investment securities increased by \$1.3 million \$2.0 million related to an increase in yield of 65 67 basis points to 3.89% 3.92%. The increase in investment yields is consistent with the an increase in market rates and the restructuring of the investment portfolio. portfolio during the first quarter of 2024. Average investment securities declined from \$472 million \$469 million during the six nine months ended June 30, 2023 September 30, 2023 to \$462 million \$457 million during the current period. Interest on cash balances declined increased by \$78 \$712 thousand as related to an increase in yield of 70 54 basis points was offset by a decline and an increase in average balance of \$8.4 million from \$97.1 million \$88.8 million during the first six nine months of 2023 to \$81.8 million \$97.2 million in the current period. Cash balances primarily relate to cash held at the Federal Reserve Bank of San Francisco (FRB). The average rate earned on FRB balances was 5.38% during the nine months ended September 30, 2024 and 4.99% during the nine months ended September 30, 2023.

Interest expense increased from \$1.6 million \$2.9 million during the six nine months ended June 30, 2023 September 30, 2023 to \$5.3 million \$8.3 million during the current period related to an increase in rate paid on interest bearing liabilities and an increase in borrowings. The average rate paid on interest bearing liabilities increased from 0.46% 0.55% during the 2023 period to 1.39% 1.43% in 2024 related mainly to an increase in borrowings and an increase in market interest rates, an increase in rates. The average balance of borrowings increased by \$107 million from \$10 million during the nine months ended September 30, 2023 to \$117 million during the current period. Interest incurred on borrowings totaled \$4.2 million and \$396 thousand during the effect of a 4% time deposit promotion. nine months ended September 30, 2024 and 2023, respectively.

Interest paid on deposits increased by \$1.2 million \$1.6 million and is broken down by product type as follows: money market accounts - \$289 \$556 thousand, and time deposits - \$935 thousand \$1.1 million. Related to a decline in average balance of \$64 million \$57 million, interest on savings deposits declined by \$53 \$75 thousand. The average rate paid on interest-bearing deposits increased from 0.39% 0.49% during the six nine months ended June 30, 2023 September 30, 2023 to 0.79% 0.85% during the current period. Interest incurred on borrowings, including junior subordinated debentures in 2023 and borrowings under the BTFP in 2024 totaled \$2.8 million and \$282 thousand during the six months ended June 30, 2024 and 2023, respectively.

Net interest margin for the six nine months ended June 30, 2024 September 30, 2024 increased 10 6 basis points to 4.76%, up from 4.66% 4.70% for the same period in 2023.

The following table presents for the six-month nine-month periods indicated the distribution of consolidated average assets, liabilities and shareholders' equity. It also presents the amounts of interest income from interest earning assets and the resultant annualized yields expressed in both dollars and annualized yield percentages, as well as the amounts of interest expense on interest bearing liabilities and the resultant cost expressed in both dollars and annualized rate percentages. Average balances are based on daily averages. Nonaccrual loans are included in the calculation of average loans while nonaccrued interest thereon is excluded from the computation of yields earned: earned.

	For the Six Months Ended			For the Six Months Ended			For the Nine Months Ended			For the Nine Months Ended		
	June 30, 2024			June 30, 2023			September 30, 2024			September 30, 2023		
	Average Balance (in thousands)	Interest (in thousands)	Yield/Rate	Average Balance (in thousands)	Interest (in thousands)	Yield/Rate	Average Balance (in thousands)	Interest (in thousands)	Yield/Rate	Average Balance (in thousands)	Interest (in thousands)	Yield/Rate
Interest-earning assets:												
Loans (2) (3)	\$ 972,427	\$ 30,005	6.21%	\$ 917,405	\$ 26,087	5.73%	\$ 982,191	\$ 45,639	6.21%	\$ 926,148	\$ 40,363	5.83%
Taxable investment securities	369,815	7,537	4.10%	347,002	5,752	3.34%	369,893	11,423	4.13%	343,868	8,641	3.36%

Non-taxable investment securities (1)	92,225	1,393	3.04 %	125,388	1,841	2.96 %	87,051	1,989	3.05 %	124,879	2,763	2.96 %
Interest-bearing deposits	81,807	2,252	5.54 %	97,103	2,330	4.84 %	97,196	3,998	5.49 %	88,819	3,286	4.95 %
Total interest-earning assets	1,516,274	41,187	5.46 %	1,486,898	36,010	4.88 %	1,536,331	63,049	5.48 %	1,483,714	55,053	4.96 %
Cash and due from banks	27,722			26,386			26,978			25,943		
Other assets	85,300			75,034			85,536			75,771		
Total assets	\$ 1,629,296			\$ 1,588,318			\$ 1,648,845			\$ 1,585,428		
Interest-bearing liabilities:												
Money market deposits	\$ 213,399	\$ 844	0.80 %	\$ 232,855	\$ 555	0.48 %	\$ 216,699	\$ 1,501	0.93 %	\$ 229,914	\$ 945	0.55 %
Savings deposits	329,242	354	0.22 %	392,899	407	0.21 %	327,263	532	0.22 %	383,790	607	0.21 %
Time deposits	93,092	1,304	2.82 %	58,057	369	1.28 %	95,350	2,041	2.86 %	69,256	959	1.85 %
Total deposits	635,733	2,502	0.79 %	683,811	1,331	0.39 %	639,312	4,074	0.85 %	682,960	2,511	0.49 %
Junior subordinated debentures	-	-	- %	4,575	141	6.22 %	-	-	- %	3,033	141	6.22 %
Other borrowings	117,170	2,798	4.80 %	5,691	141	5.00 %	117,136	4,210	4.80 %	7,143	255	4.77 %
Repurchase agreements & other	19,260	25	0.26 %	17,687	9	0.10 %	18,820	33	0.23 %	18,230	18	0.13 %
Total interest-bearing liabilities	772,163	5,325	1.39 %	711,764	1,622	0.46 %	775,268	8,317	1.43 %	711,366	2,925	0.55 %
Non-interest-bearing deposits	668,441			733,781			678,057			729,044		
Other liabilities	31,118			15,908			33,845			17,293		
Shareholders' equity	156,574			126,865			161,675			127,725		
Total liabilities & equity	\$ 1,628,296			\$ 1,588,318			\$ 1,648,845			\$ 1,585,428		
Cost of funding interest-earning assets (4)			0.70 %			0.22 %			0.72 %			0.26 %
Net interest income and margin (5)	\$ 35,862	4.76 %		\$ 34,388	4.66 %		\$ 54,732	4.76 %		\$ 52,128	4.70 %	

(1) Not computed on a tax-equivalent basis.

(2) Average nonaccrual loan balances of \$4.8 million \$4.4 million for 2024 and \$3.0 million \$3.1 million for 2023 are included in average loan balances for computational purposes.

(3) Net costs included in loan interest income for the six-month nine-month period ended June 30, 2024 September 30, 2024 and 2023 were \$682,000 \$1,090,000 and \$581,000, \$927,000, respectively.

(4) Total annualized interest expense divided by the average balance of total earning assets.

(5) Annualized net interest income divided by the average balance of total earning assets.

The following table sets forth changes in interest income and interest expense for the six-month nine-month periods indicated and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates:

	2024 over 2023 change in net interest income							2024 over 2023 change in net interest income			
	for the six months ended June 30, (in thousands)							for the nine months ended September 30, (in thousands)			
	Volume (1)	Rate (2)	Mix (3)	Total	Volume (1)	Rate (2)	Mix (3)	Total			
Interest-earning assets:											
Loans	\$ 1,569	\$ 2,147	\$ 202	\$ 3,918	\$ 2,445	\$ 2,635	\$ 196	\$ 5,276			
Taxable investment securities	379	1,304	102	1,785	655	1,970	157	2,782			
Non-taxable investment securities	(488)	48	(8)	(448)	(838)	88	(24)	(774)			
Interest-bearing deposits	(368)	337	(47)	(78)	310	364	38	712			
Total interest income	1,092	3,836	249	5,177	2,572	5,057	367	7,996			
Interest-bearing liabilities:											
Money market deposits	(47)	364	(28)	289	(54)	646	(36)	556			
Savings deposits	(66)	14	(1)	(53)	(90)	16	(1)	(75)			
Time deposits	223	443	269	935	362	523	197	1,082			
Junior subordinated debentures	(141)	-	-	(141)	(141)	-	-	(141)			
Other borrowings	2,770	(5)	(108)	2,657	3,930	2	23	3,955			
Repurchase agreements & other	1	14	1	16	1	14	-	15			
Total interest expense	2,740	830	133	3,703	4,008	1,201	183	5,392			
Net interest income	\$ (1,648)	\$ 3,006	\$ 116	\$ 1,474	\$ (1,436)	\$ 3,856	\$ 184	\$ 2,604			

(1) The volume change in net interest income represents the change in average balance divided by the previous year's rate.

(2) The rate change in net interest income represents the change in rate divided by the previous year's average balance.

(3) The mix change in net interest income represents the change in average balance multiplied by the change in rate.

Provision for credit losses. During the first **half** **nine months** of 2024 we recorded a provision for credit losses of **\$1,746,000** **\$1,346,000** consisting of a provision for credit losses on loans of **\$1,825,000** **\$1,475,000** and a decrease in the reserve for unfunded commitments of **\$79,000**. The **\$1.8** million loan provision includes growth in the portfolio, net losses during the six-month period and an increase in loan delinquencies **\$129,000**. This compares to a provision for credit losses of **\$2,875,000** **\$2,675,000** consisting of a provision for credit losses on loans of **\$2,550,000** **\$2,425,000** and an increase in the reserve for unfunded commitments of **\$325,000** **\$250,000** during the first half of 2023. The 2023 provision for credit losses on loans included specific reserves totaling **\$868,000** on three loans, **nine months ended September 30, 2023**. As time progresses the results of economic conditions will require CECL model assumption inputs to change and further refinements to the estimation process may also be identified. See "Analysis of Asset Quality and Allowance for Credit Losses" for a discussion of loan quality trends and the provision for credit losses.

The following tables present the activity in the allowance for credit losses and the reserve for unfunded commitments during the **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023 (in thousands).

	June 30, 2024		June 30, 2023		September 30, 2024		September 30, 2023	
	\$	12,867	\$	10,717	\$	12,867	\$	10,717
Allowance for Credit Losses								
Balance, beginning of period								
Impact of CECL adoption		-		529		-		529
Provision charged to operations		1,825		2,550		1,475		2,425
Losses charged to allowance		(1,010)		(738)		(1,422)		(1,252)
Recoveries		400		327		686		528
Balance, end of period		\$ 14,082		\$ 13,385		\$ 13,606		\$ 12,947

	June 30, 2024	June 30, 2023	September 30, 2024	September 30, 2023
Reserve for Unfunded Commitments	\$ 799	\$ 341	\$ 799	\$ 341
Balance, beginning of period	-	258	-	258
Impact of CECL adoption	(79)	325	(129)	250
Provision charged to operations				
Balance, end of period	<u>\$ 720</u>	<u>\$ 924</u>	<u>\$ 670</u>	<u>\$ 849</u>

Non-interest income. During the **six** **nine** months ended **June 30, 2024** **September 30, 2024**, non-interest income totaled **\$4.3 million** **\$6.6 million**, a decrease of **\$1.7 million** **\$1.8 million** from the **six** **nine** months ended **June 30, 2023** **September 30, 2023**. The largest component of this decrease was a \$1.7 million gain on termination of our interest rate swaps during the **2023 period** **2023**. As discussed earlier, during the first quarter of 2024, a \$19.9 million gain on the sale of buildings was offset by a \$19.8 million loss on sale of investment securities.

The following table describes the components of non-interest income for the **six-month** **nine-month** periods ended **June 30, 2024** **September 30, 2024** and 2023, dollars in thousands:

	For the Six Months Ended					For the Nine Months Ended				
	June 30,		Dollar Change	Percentage Change	2024	2023	September 30,		Dollar Change	Percentage Change
	2024	2023					2024	2023		
Gain on sale of buildings	\$ 19,854	\$ -	\$ 19,854	100.0%	\$ 19,854	\$ -	\$ 19,854	\$ -	100.0%	100.0%
Interchange income	1,522	1,539	(17)	(1.1)%	2,340	2,458	(118)	(4.8)%		
Service charges on deposit accounts	1,458	1,313	145	11.0%	2,224	2,051	173	8.4%		
Loan servicing fees	388	476	(88)	(18.5)%	564	678	(114)	(16.8)%		
FHLB Dividends	273	173	100	57.8%	409	289	120	41.5%		
Earnings on life insurance policies	200	204	(4)	(2.0)%	305	313	(8)	(2.6)%		
Gain on termination of interest rate swaps	-	1,707	(1,707)	(100.0)%	-	1,707	(1,707)	(100.0)%		
Loss on sale of investment securities	(19,826)	-	(19,826)	100.0%						
Loss on sale of investment securities					(19,817)	-	(19,817)	-	(100.0)%	
Other	473	656	(183)	(27.9)%	700	884	(184)	(20.8)%		
Total non-interest income	\$ 4,342	\$ 6,068	\$ (1,726)	(28.4)%	\$ 6,579	\$ 8,380	\$ (1,801)	(21.5)%		

Non-interest expense. During the **six** **nine** months ended **June 30, 2024**, **September 30, 2024** non-interest expense increased by **\$2.5 million** **\$3.9 million** to **\$20.8 million** **\$31.6 million**. The largest components of this increase were a **\$716 thousand** **\$1.1 million** increase in salary and benefit expenses and a **\$1.0 million** **\$1.7 million** increase in occupancy and equipment **expense** **expenses**. The **increase** **largest increases** in salary and benefit expense **primarily relates to an increase** were **\$524 thousand** in salary expense and commissions. Salary expense increased **\$404 thousand** in commission expense. These were partially offset by **\$384 thousand** which we attribute primarily to merit and promotional salary increases and an increase in employees. Our full-time equivalent employee count has increased from 176 at June 30, 2023, to 185 at June 30, 2024. Commissions increased by **\$435 thousand** related mostly to SBA production which has been quite strong during 2024. In the second half of 2023, our SBA department moved from producing variable rate SBA 7(a) loans indexed to prime to fixed rate SBA 7(a) loans. We had experienced a significant decline in the market for the variable rate SBA loans; however, we have successfully transitioned to the fixed rate product. We portfolio the fixed rate SBA loans we generate. During the six months ended June 30, 2024, fixed rate SBA loans balances increased by **\$38 million**. Partially offsetting the increase in salary and commission expense was an increase in the deferral of loan origination cost costs of **\$392** **\$297 thousand** related to the an increase in SBA loan production. The increase in occupancy and equipment costs relates to a **\$1.0 million** **\$1.7 million** increase in rent expense **related to associated with** the sales/leaseback transaction. The increase in other non-interest expense includes a **\$300 thousand** accrual related to a litigation matter. In addition, professional fees include **\$265 thousand** related to this matter, mostly legal fees. While portions of this matter are still being litigated these amounts represent our best estimate of potential costs to Plumas Bank related to this matter.

The following table describes the components of non-interest expense for the **six-month** **nine-month** periods ended **June 30, 2024** **September 30, 2024** and 2023, dollars in thousands:

	For the Six Months Ended				For the Nine Months Ended			
	June 30,		2024	2023	September 30,		2024	2023
	2024	2023			2024	2023		

	2024	2023	Dollar Change	Percentage Change	2024	2023	Dollar Change	Percentage Change
Salaries and employee benefits	\$ 10,649	\$ 9,933	\$ 716	7.2%	\$ 16,129	\$ 15,047	\$ 1,082	7.2%
Occupancy and equipment	3,639	2,593	1,046	40.3%	5,627	3,945	1,682	42.6%
Outside service fees	2,316	2,175	141	6.5%	3,430	3,345	85	2.5%
Professional fees	768	626	142	22.7%	1,113	854	259	30.3%
Advertising and shareholder relations	458	460	(2)	(0.4)%	706	693	13	1.9%
Armored car and courier					651	558	93	16.7%
Telephone and data communication	426	403	23	5.7%	614	606	8	1.3%
Armored car and courier	422	347	75	21.6%				
Director compensation and expense					569	603	(34)	(5.6)%
Deposit insurance	372	370	2	0.5%	562	552	10	1.8%
Director compensation and expense	366	438	(72)	(16.4)%				
Business development	363	305	58	19.0%	506	457	49	10.7%
Loan collection expenses	221	217	4	1.8%	323	308	15	4.9%
Amortization of Core Deposit Intangible	102	120	(18)	(15.0)%	153	180	(27)	(15.0)%
Other	691	336	355	105.7%	1,234	616	618	100.3%
Total non-interest expense	\$ 20,793	\$ 18,323	\$ 2,470	13.5%	\$ 31,617	\$ 27,764	\$ 3,853	13.9%

Provision for income taxes. The Company recorded an income tax provision of \$4.6 million \$7.5 million, or 26.2% 26.4% of pre-tax income, for the six nine months ended June 30, 2024 September 30, 2024. This compares to an income tax provision of \$5.0 million \$7.8 million, or 25.8% 26.0% of pre-tax income, for the six nine months ended June 30, 2023 September 30, 2023. The percentages for 2024 and 2023 differ from statutory rates as tax exempt items of income such as earnings on Bank owned life insurance and municipal securities interest decrease taxable income.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2024 SEPTEMBER 30, 2024

Net Income. The Company recorded net income of \$6.8 \$7.8 million for the three months ended June 30, 2024 September 30, 2024, up slightly down from net income of \$6.7 million \$8.0 million for the three months ended June 30, 2023 September 30, 2023. An increase of \$1.2 million \$1.1 million in net interest income and \$59,000 in non-interest income and a decline of \$425,000 \$200,000 in the provision for credit losses were mostly offset by increases of \$1.3 million \$1.4 million in non-interest expense and \$226,000 a decline of \$76,000 in the provision for income taxes. non-interest income. Included in non-interest expense were nonrecurring costs related to a litigation matter totaling \$376,000. The annualized return on average assets was 1.67% 1.84% for the three months ended June 30, 2024 September 30, 2024, down from 1.70% 2.00% for the three months ended June 30, 2023 September 30, 2023. The annualized return on average equity decreased from 20.5% 24.4% during the second third quarter of 2023 to 17.1% 18.1% during the current quarter.

The following is a detailed discussion of each component of the change in net income.

Net interest income before provision for credit losses. Net interest income was \$18.4 million \$18.9 million for the three months ended June 30, 2024 September 30, 2024, an increase of \$1.2 million \$1.1 million from the same period in 2023. The increase in net interest income includes an increase of \$2.9 million \$2.8 million in interest income partially offset by an increase of \$1.8 million \$1.7 million in interest expense.

Interest and fees on loans increased by \$2.0 million \$1.4 million related to growth in the loan portfolio and an increase in yield on the portfolio.

Average loan balances increased by \$61 million \$58 million, while the average yield on these loans increased by 48 21 basis points from 5.84% 6.00% during the second third quarter of 2023 to 6.32% 6.21% during the current quarter. The increase in loan yield includes the effect of an increase in market rates. Additionally, during SBA fixed rate loans which currently yield approximately 8.1% and the current quarter we recovered \$316 thousand in interest on repricing of loans that were classified as nonaccrual are priced off the 5 year Treasury. These loans are primarily commercial real estate loans and which were paid off in full during the quarter are repriced every five years.

Interest on investment securities increased by \$669 \$670 thousand related to an increase in yield of 86 71 basis points to 4.11% 3.99%. The increase in investment yields is consistent with the increase in market rates and the restructuring of the investment portfolio discussed earlier during the first quarter of 2024. Average investment securities declined from \$478 million \$462 million during the three months ended June 30, 2023, September 30, 2023 to \$444 million \$447 million during the current quarter. Interest on cash balances increased by \$249 \$791 thousand related to an increase in average balance of \$13 million \$57 million and an increase in rate earned on these balances of 37 7 basis points from 5.14% 5.37% during the three months ended June 30, 2023 September 30, 2023 to 5.51% 5.44% during the current quarter. The increase in rate earned was mostly related Cash balances primarily relate to an increase in the rate paid on balances cash held at the Federal Reserve Bank (FRB). The average rate earned on FRB balances increased from 5.06% was 5.33% during both the second third quarter of 2023 to 5.40% during the current quarter, 2024 and 2023.

Interest expense increased by \$1.7 million from \$984 thousand \$1.3 million during the three months ended June 30, 2023, September 30, 2023 to \$2.8 million \$3.0 million during the current period related to an increase in rate paid on interest bearing liabilities and an increase in borrowings. The average rate paid on interest bearing liabilities increased from 0.56% 0.73% during the 2023 quarter to 1.44% 1.52% in 2024 related mainly to an increase in market interest rates, and an increase in borrowings and the effect of a 4% time deposit promotion, borrowings.

Interest paid on deposits increased by \$452 \$391 thousand and is broken down by product type as follows: money market accounts - \$130 \$266 thousand, and time deposits - \$356 \$146 thousand. Related to a decline in average balance of \$61 million \$43 million, interest on savings deposits declined by \$34 \$21 thousand. The average rate paid on interest-bearing deposits increased from 0.51% 0.69% during the second third quarter of 2023 to 0.84% 0.97% during the current quarter.

Interest Mostly related to an increase in average borrowings outstanding from \$10 million during the three months ended September 30, 2023 to \$117 million during the current quarter, interest incurred on borrowings including borrowings under the BTFP in 2024 totaled \$1.4 million and \$113 increased by \$1.3 million from \$114 thousand during the three months ended June 30, 2024 and 2023, respectively. September 30, 2023 to \$1.4 million during the three months ended September 30, 2024.

Net interest margin for the three months ended June 30, 2024 increased 20bp to 4.89% September 30, 2024 was 4.76%, up down slightly from 4.69% 4.77% for the same period in 2023.

The following table presents for the three-month periods indicated the distribution of consolidated average assets, liabilities and shareholders' equity. It also presents the amounts of interest income from interest earning assets and the resultant annualized yields expressed in both dollars and annualized yield percentages, as well as the amounts of interest expense on interest bearing liabilities and the resultant cost expressed in both dollars and annualized rate percentages. Average balances are based on daily averages. Nonaccrual loans are included in the calculation of average loans while nonaccrued interest thereon is excluded from the computation of yields earned:

	For the Three Months Ended			For the Three Months Ended			For the Three Months Ended			For the Three Months Ended		
	June 30, 2024			June 30, 2023			September 30, 2024			September 30, 2023		
	Average Balance (in thousands)	Interest (in thousands)	Yield/ Rate	Average Balance (in thousands)	Interest (in thousands)	Yield/ Rate	Average Balance (in thousands)	Interest (in thousands)	Yield/ Rate	Average Balance (in thousands)	Interest (in thousands)	Yield/ Rate
Interest-earning assets:												
Loans (2) (3)	\$ 980,723	\$ 15,412	6.32 %	\$ 919,953	\$ 13,393	5.84 %	\$ 1,001,505	\$ 15,635	6.21 %	\$ 943,348	\$ 14,276	6.00 %
Taxable investment securities	367,841	3,932	4.30 %	351,986	2,938	3.35 %	370,051	3,885	4.18 %	337,702	2,888	3.39 %
Non-taxable investment securities (1)	76,275	602	3.17 %	126,148	927	2.95 %	76,817	596	3.09 %	123,877	923	2.96 %
Interest-bearing deposits	88,607	1,214	5.51 %	75,233	965	5.14 %	127,640	1,746	5.44 %	70,545	955	5.37 %
Total interest-earning assets	1,513,446	21,160	5.62 %	1,473,320	18,223	4.96 %	1,576,013	21,862	5.52 %	1,475,472	19,042	5.12 %
Cash and due from banks	26,859			26,050			27,480			27,049		
Other assets	90,092			74,888			86,001			77,221		
Total assets	\$ 1,630,397			\$ 1,574,258			\$ 1,689,494			\$ 1,579,742		
Interest-bearing liabilities:												
Money market deposits	\$ 215,614	\$ 468	0.87 %	\$ 229,886	\$ 338	0.59 %	\$ 223,229	\$ 657	1.17 %	\$ 224,128	\$ 391	0.69 %
Savings deposits	322,919	174	0.22 %	383,599	208	0.22 %	323,347	178	0.22 %	365,869	199	0.22 %
Time deposits	94,684	674	2.86 %	67,986	318	1.88 %	99,815	736	2.93 %	91,290	590	2.56 %
Total deposits	633,217	1,316	0.84 %	681,471	864	0.51 %	646,391	1,571	0.97 %	681,287	1,180	0.69 %
Other borrowings	120,000	1,431	4.80 %	10,000	113	4.53 %	117,065	1,413	4.80 %	10,000	114	4.52 %

Repurchase agreements & other	16,809	8	0.19 %	16,900	7	0.17 %	17,943	8	0.18 %	19,300	9	0.19 %
Total interest-bearing liabilities	770,026	2,755	1.44 %	708,371	984	0.56 %	781,399	2,992	1.52 %	710,587	1,303	0.73 %
Non-interest-bearing deposits	663,094			718,372			697,079			719,725		
Other liabilities	37,794			17,411			39,249			20,012		
Shareholders' equity	159,483			130,104			171,767			129,418		
Total liabilities & equity	\$ 1,630,397			\$ 1,574,258			\$ 1,689,494			\$ 1,579,742		
Cost of funding interest-earning assets (4)			0.73 %			0.27 %			0.76 %			0.35 %
Net interest income and margin (5)	\$ 18,405	4.89 %		\$ 17,239	4.69 %		\$ 18,870	4.76 %		\$ 17,739	4.77 %	

- (1) Not computed on a tax-equivalent basis.
- (2) Average nonaccrual loan balances of **\$4.2 million** **\$3.7 million** for 2024 and **\$3.6 million** **\$3.4 million** for 2023 are included in average loan balances for computational purposes.
- (3) Net costs included in loan interest income for the three-month period ended **June 30, 2024** **September 30, 2024** and 2023 were **\$338,000** **\$408,000** and **\$231,000**, **\$346,000**, respectively.
- (4) Total annualized interest expense divided by the average balance of total earning assets.
- (5) Annualized net interest income divided by the average balance of total earning assets.

The following table sets forth changes in interest income and interest expense for the three-month periods indicated and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates:

	2024 over 2023 change in net interest income					2024 over 2023 change in net interest income					
	for the three months ended June 30					for the three months ended September 30,					
	Volume (1)		Rate (2)		Mix (3)	Total	Volume (1)		Rate (2)		Mix (3)
Interest-earning assets:											
Loans	\$ 882	\$ 1,101	\$ 36	\$ 2,019	\$ 878	\$ 490	\$ (9)	\$ 1,359			
Taxable investment securities	132	833	29	994	276	665	56	997			
Non-taxable investment securities	(366)	71	(30)	(325)	(350)	41	(18)	(327)			
Interest-bearing deposits	172	68	9	249	771	13	7	791			
Total interest income	820	2,073	44	2,937	1,575	1,209	36	2,820			
Interest-bearing liabilities:											
Money market deposits	(21)	162	(11)	130	(1)	269	(2)	266			
Savings deposits	(33)	0	(1)	(34)	(23)	3	(1)	(21)			
Time deposits	125	166	65	356	55	85	6	146			
Other borrowings	1,239	7	72	1,318	1,217	7	75	1,299			
Repurchase agreements & other	-	1	-	1	(1)	0	-	(1)			
Total interest expense	1,310	336	125	1,771	1,247	364	78	1,689			
Net interest income	\$ (490)	\$ 1,737	\$ (81)	\$ 1,166	\$ 328	\$ 845	\$ (42)	\$ 1,131			

- (1) The volume change in net interest income represents the change in average balance divided by the previous year's rate.
- (2) The rate change in net interest income represents the change in rate divided by the previous year's average balance.
- (3) The mix change in net interest income represents the change in average balance multiplied by the change in rate.

Provision for credit losses. During the **second** **third** quarter of 2024 we recorded a provision for credit losses of **\$925,000** **(\$400,000)** consisting of a provision for credit losses on loans of **\$925,000** **(\$350,000)** and a decrease in the reserve for unfunded commitments of **\$50,000**. This compares to a provision for credit losses of **\$1,350,000** **(\$200,000)** during the 2023 quarter consisting of a provision for credit losses on loans of **\$1,300,000** **(\$125,000)** and **an increase** **a decrease** in the reserve for unfunded commitments of **\$50,000** **(\$75,000)**. As time progresses the results of economic conditions will require CECL model assumption inputs to change and further refinements to the estimation process may also be identified. See "Analysis of Asset Quality and Allowance for Credit Losses" for a discussion of loan quality trends and the provision for credit losses.

Non-interest income. Non-interest income **increased** **decreased** by **\$59** **\$76** thousand to \$2.2 million during the current quarter. Increases of **\$49** **\$29** thousand in service charge income, **\$50** **\$21** thousand in Federal Home Loan Bank dividends and **\$57** **\$6** thousand in other non-interest income were **partially** offset by declines in interchange income of **\$42** **\$101** thousand, **and** loan servicing fees of **\$55** **\$27** thousand and earnings on insurance policies of **\$4** thousand. **Interchange income can fluctuate period to period mostly based on the volume of debit card transactions.**

The following table describes the components of non-interest income for the three-month periods ended **June 30, 2024** **September 30, 2024** and 2023, dollars in thousands:

	For the Three Months Ended					For the Three Months Ended				
	June 30,		Dollar Change	Percentage Change		September 30,		Dollar Change	Percentage Change	
	2024	2023				2024	2023			
Interchange income	\$ 782	\$ 824	\$ (42)	(5.1)%		\$ 818	\$ 919	\$ (101)	(11.0)%	
Service charges on deposit accounts	743	694	49	7.1%		766	737	29	3.9%	
Loan servicing fees	186	241	(55)	(22.8)%		176	203	(27)	(13.3)%	
FHLB Dividends	136	86	50	58.1%		136	115	21	18.3%	
Earnings on life insurance policies	104	100	4	4.0%		104	108	(4)	(3.7)%	
Other	251	198	53	26.8%		237	231	6	2.6%	
Total non-interest income	\$ 2,202	\$ 2,143	\$ 59	2.8%		\$ 2,237	\$ 2,313	\$ (76)	(3.3)%	

Non-interest expense. During the three months ended **June 30, 2024** **September 30, 2024**, total non-interest expense increased by **\$1.3 million** **\$1.4 million** from **\$9.1 million** **\$9.4 million** during the **second** **third** quarter of 2023 to **\$10.4 million** **\$10.8 million** during the current quarter. The largest components of this increase were an increase in salary and benefit expense of **\$417** **\$367** thousand, **and** an increase in occupancy and equipment costs of **\$696** **\$636** thousand, an increase in professional fees of **\$117** thousand and an increase in other non-interest expense of **\$262** thousand. The increase in salary and benefit expense primarily relates to an increase in salary expense and **commissions**, a decrease in the deferral of loan origination costs. **Salary expense** **expenses** increased by **\$197** **\$138** thousand, which we attribute primarily to merit and promotional salary increases and an increase in employees. **Commissions** Our full time equivalent employee count has increased from 180 at September 30, 2023 to 189 at September 30, 2024. Deferred loan origination cost declined by **\$328** **\$95** thousand related mostly from **\$694** thousand during the three months ended September 30, 2023 to **SBA** production which has been quite strong **\$599** thousand during 2024. Partially offsetting the increase in salary and commission expense was an increase in the deferral current period. The amount of loan origination cost of **\$254** thousand costs deferred is primarily related to loan volume, both new originations and renewals, during the increase in SBA loan production. period. Occupancy and equipment costs increased by **\$696** **\$636** thousand related to an increase in rent expense of **\$685** **\$705** thousand mostly related to the sales/leaseback **transaction**. **transaction** completed during the first quarter of 2024. This increase in rent expense was offset by additional income resulting from the restructuring of our investment portfolio which also took place during the first quarter of 2024. The increase in other non-interest expense includes a \$300 thousand accrual related to a litigation matter. In addition, professional fees include \$76 thousand related to this matter, mostly legal fees. While portions of this matter are still being litigated these amounts represent our best estimate of potential costs to Plumas Bank related to this matter.

The following table describes the components of non-interest expense for the three-month periods ended **June 30, 2024** **September 30, 2024** and 2023, dollars in thousands:

	For the Three Months Ended			For the Three Months Ended		

	June 30,				September 30,									
	2024		2023		Dollar Change	Percentage Change	2024		2023		Dollar Change	Percentage Change		
	\$	5,283	\$	4,866	\$	417	8.6%	\$	5,481	\$	5,114	\$	367	7.2%
Salaries and employee benefits														
Occupancy and equipment		1,949		1,253		696	55.5%		1,988		1,352		636	47.0%
Outside service fees		1,184		1,181		3	0.3%		1,114		1,170		(56)	(4.8)%
Professional fees		329		284		45	15.8%		345		228		117	51.3%
Advertising and shareholder relations									247		233		14	6.0%
Armored car and courier		220		182		38	20.9%		228		211		17	8.1%
Advertising and shareholder relations		214		281		(67)	(23.8)%							
Business development		210		166		44	26.5%							
Telephone and data communication		204		203		1	0.5%							
Director compensation and expense		199		196		3	1.5%		203		165		38	23.0%
Deposit insurance		185		182		3	1.6%		191		182		9	4.9%
Telephone and data communication									188		203		(15)	(7.4)%
Business development									143		152		(9)	(5.9)%
Loan collection expenses		117		87		30	34.5%		102		91		11	12.1%
Amortization of Core Deposit Intangible		51		60		(9)	(15.0)%		51		60		(9)	(15.0)%
Other		251		157		94	59.9%		543		281		262	93.2%
Total non-interest expense		\$ 10,396		\$ 9,098		\$ 1,298	14.3%		\$ 10,824		\$ 9,442		\$ 1,382	14.6%

Provision for income taxes. The Company recorded an income tax provision of \$2.5 million, or 26.9% of pre-tax income, for the three months ended June 30, 2024 September 30, 2024. This compares to an income tax provision of \$2.3 million, or 25.5% of pre-tax income, for the three months ended June 30, 2023 September 30, 2023. The percentages for 2024 and 2023 differ from statutory rates as tax exempt items of income such as earnings on Bank owned life insurance and municipal securities interest decrease taxable income.

FINANCIAL CONDITION

Total assets on June 30, 2024 September 30, 2024, were \$1.6 billion, an increase of \$32 million \$54 million from December 31, 2023. Net loans increased by \$38 million \$44 million from \$949 million on December 31, 2023, to \$987 million \$93 million at June 30, 2024 September 30, 2024. Cash and cash equivalents increased by \$24 \$32 million to \$110 million \$118 million on June 30, 2024 September 30, 2024. Related to the sales/leaseback transaction right-of use assets increased by \$22 million. These increases were offset by declines of \$44 million \$32 million in investment securities, \$6.0 million \$6 million in property and equipment and \$2 million \$6 million in all other assets.

Deposits totaled \$1.3 billion June 30, 2024 \$1.4 billion at September 30, 2024, a decrease an increase of \$29 million \$17 million from December 31, 2023. Borrowings Lease liabilities increased by \$30 million \$22 million and other liabilities increased by \$1 million. Partially offsetting these increases in liabilities were decreases in borrowings and repurchase agreements. Borrowings decreased by \$15 million from \$90 million on December 31, 2023, to \$120 million \$75 million on June 30, 2024 September 30, 2024. Repurchase agreements decreased by \$6 million to \$17 million. Shareholders' equity increased by \$18 million \$35 million from \$147 million on December 31, 2023, to \$165 million \$182 million on June 30, 2024 September 30, 2024. A detailed discussion of each of these changes follows.

Loan Portfolio. Gross loans increased by \$39 million \$45 million, or 4%, from \$958.6 million \$959 million at December 31, 2023, to \$997.3 million \$1 billion at June 30, 2024 September 30, 2024. Increases in loans included \$44 \$74 million in commercial real estate loans \$10 and \$8 million in construction loans, and \$7 million in commercial loans and \$1 million in equity lines of credit; these loans. These items were offset by declines of \$17 million \$26 million in automobile loans, and \$6 \$8 million in agricultural loans, loans and \$3 million in all other categories. Although the Company offers a broad array of financing options, it continues to concentrate its focus on small to medium sized commercial businesses. These loans offer diversification as to industries and types of businesses, thus limiting material exposure in any industry concentrations. The Company offers both fixed and floating rate loans and obtains collateral in the form of real property, business assets and deposit accounts, but looks to business and personal cash flows as its primary source of repayment. In the fourth quarter of 2023 we terminated our indirect auto loan program. Ending this program, which was our lowest yielding loan segment, also improved our loan loss risk profile since this program had historically higher charge-off rates. Terminating this program also improved our consumer compliance risk profile.

As shown in the following table the Company's largest lending categories are commercial real estate loans, agricultural loans, commercial loans and auto loans.

Percent of Loans in Each	Percent of Loans in Each	Percent of Loans in Each	Percent of Loans in Each

(dollars in thousands)	Balance at End		Category to		Balance at End		Category to		Balance at End		Category to	
	of Period		Total Loans		of Period		Total Loans		of Period		Total Loans	
	06/30/2024	06/30/2024	12/31/2023	12/31/2023	09/30/2024	09/30/2024	12/31/2023	12/31/2023	09/30/2024	09/30/2024	12/31/2023	12/31/2023
Commercial	\$ 81,170	8.1%	\$ 74,271	7.8%	\$ 82,192	8.2%	\$ 74,271	7.8%				
Agricultural	123,661	12.4%	129,389	13.5%	121,709	12.1%	129,389	13.5%				
Real estate – residential	11,755	1.2%	11,914	1.2%	11,672	1.2%	11,914	1.2%				
Real estate – commercial	588,332	59.0%	544,339	56.8%	618,236	61.6%	544,339	56.8%				
Real estate – construction & land	67,960	6.8%	57,717	6.0%	54,287	5.4%	57,717	6.0%				
Equity Lines of Credit	38,446	3.9%	37,871	4.0%	37,652	3.8%	37,871	4.0%				
Auto	80,751	8.1%	98,132	10.2%	72,388	7.2%	98,132	10.2%				
Other	5,259	0.5%	4,931	0.5%	5,352	0.5%	4,931	0.5%				
Total Gross Loans	\$ 997,334	100%	\$ 958,564	100%	\$ 1,003,488	100%	\$ 958,564	100%				

The Company's real estate related loans, including real estate mortgage loans, real estate construction and land development loans, consumer equity lines of credit, and agricultural loans secured by real estate, comprised 79% 80% of the total loan portfolio at June 30, 2024 September 30, 2024. Moreover, the business activities of the Company currently are focused in the California counties of Butte, Lassen, Modoc, Nevada, Placer, Plumas, Shasta and Sutter and in Washoe and Carson City Counties in Northern Nevada. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in these economies and, in particular, the commercial real estate markets. In addition, the concentration of the Company's operations in these areas of Northeastern California and Northwestern Nevada exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions.

Commercial real estate loans ("CRE"), which comprised 59% 61% of the lending portfolio at June 30, 2024 September 30, 2024, included 26% investor-owned, 24% 26% owner-occupied, and 9% multi-family. Concentrations by real estate type within the CRE portfolio included 15% multi-family, 13% retail, 12% 11% retail, 11% office, 11% 10% mixed commercial real estate, 8% hospitality, 7% 6% industrial, 6% special purpose, 6% gas stations and 6% 5% mini storage facilities, with all remaining concentrations below 5%. There were no rent-controlled properties within the multi-family category. Office facilities are typically small and located in more rural areas. 36% 28% of CRE loans were located in northern Nevada and 43% 47% were located in northern California, including the Sacramento area. Of the \$2.5 million \$4.5 million in non-accrual balances at June 30, 2024 September 30, 2024, approximately 33% 39% were CRE. Of the \$18.0 million \$22.4 million in substandard balances at June 30, 2024 September 30, 2024, 10% 17% were CRE, much of which was related to a single borrower who has not missed payments. CRE.

CRE loans consist of term loans secured by a mortgage lien on real property and include both owner occupied CRE loans as well as investor-owned loans. Investor-owned CRE loans consist of mortgage loans to finance investments in real property that may include, but are not limited to, multi-family, industrial, office, retail and other specific use properties. The primary risk characteristics in the investor-owned portfolio include impacts of overall leasing rates, absorption timelines, levels of vacancy rates and operating expenses. The Company requires collateral values in excess of the loan amounts, cash flows in excess of expected debt service requirements and equity investment in the project. The expected cash flows from all significant new or renewed income producing property commitments are stress tested to reflect the risks in varying interest rates, vacancy rates and rental rates. Inherent lending risks are monitored on a continuous basis through quarterly monitoring and the Bank's annual underwriting process, incorporating an analysis of cash flow, collateral, market conditions and guarantor liquidity, if applicable. CRE loan policies are specific to individual product types and underwriting parameters vary depending on the risk profile of each asset class. CRE loan policies are reviewed no less than annually by management and approved by the Company's Board of Directors to ensure they align with current market conditions and the Company's moderate risk appetite. CRE concentration limits have been established by product type and are monitored quarterly by the Company's Board of Directors.

The rates of interest charged on variable rate loans are set at specific increments in relation to the Company's lending rate or other indexes such as the published prime interest rate or U.S. Treasury rates and vary with changes in these indexes. The frequency in which variable rate loans reprice can vary from one day to several years. At June 30, 2024 September 30, 2024 and December 31, 2023, approximately 75% 77% and 78%, respectively, of the Company's loan portfolio was comprised of variable rate loans. Loans indexed to the prime interest rate were approximately 25% 22% of the Company's variable rate loan portfolio; portfolio on September 30, 2024; these loans reprice within one day to three months of a change in the prime rate. The remainder of the Company's variable rate loans mostly consist of commercial real estate loans tied to U.S. Treasury rates and reprice every five years. Approximately 72% 75% of the variable rate loans are indexed to the five-year T-Bill rate and reprice every five years. While real estate mortgage, agricultural, commercial and consumer lending remain the foundation of the Company's historical loan mix, some changes in the mix have occurred due to the changing economic environment and the resulting change in demand for certain loan types.

Analysis of Asset Quality and Allowance for Credit Losses. The Company attempts to minimize credit risk through its underwriting and credit review policies. The Company's credit review process includes internally prepared credit reviews as well as contracting with an outside firm to conduct periodic credit reviews. The Company's management and lending officers evaluate the loss exposure of classified and nonaccrual loans on a quarterly basis, or more frequently as loan conditions change. The Management Asset Resolution Committee (MARC) reviews the asset quality of criticized and past due loans monthly and reports the findings to the full Board of Directors. In management's opinion,

this loan review system helps facilitate the early identification of potential criticized loans. MARC also provides guidance for the maintenance and timely disposition of OREO properties including developing financing and marketing programs to incent individuals to purchase OREO. MARC consists of the Bank's Chief Executive Officer, Chief Financial Officer and Chief Credit Officer, and the activities are governed by a formal written charter. The MARC meets monthly and reports to the Board of Directors.

The allowance for credit losses is established through charges to earnings in the form of the provision for credit losses. Loan losses are charged to, and recoveries are credited to, the allowance for credit losses. The allowance for credit losses is maintained at a level deemed appropriate by management to provide for known and inherent risks in the loan portfolio.

To estimate expected losses the Company generally utilizes historical loss trends and the remaining contractual lives of the loan portfolios to determine estimated credit losses through a reasonable and supportable forecast period. Individual loan credit quality indicators including loan grade and borrower repayment performance have been statistically correlated with historical credit losses and various economic metrics including California unemployment rates, California Housing Prices and California gross domestic product. Model forecasts may be adjusted for inherent limitations or biases that have been identified through independent validation and back-testing of model performance to actual realized results. At both December 31, 2023 and **June 30, 2024** **September 30, 2024**, the Company utilized a reasonable and supportable forecast period of approximately four quarters and obtained the forecast data from publicly available sources. The Company also considered the impact of portfolio concentrations, changes in underwriting practices, imprecision in its economic forecasts, and other risk factors that might influence its loss estimation process. Management believes that the allowance for credit losses at **June 30, 2024** **September 30, 2024**, appropriately reflected expected credit losses inherent in the loan portfolio at that date.

In determining the allowance for credit losses, accruing loans with similar risk characteristics are generally evaluated collectively. The Company's policy is that loans designated as nonaccrual no longer share risk characteristics similar to other loans evaluated collectively and as such, all nonaccrual loans are individually evaluated for reserves. As of **June 30, 2024** **September 30, 2024**, the Bank's nonaccrual loans comprised the entire population of loans individually evaluated. The Company's policy is that nonaccrual loans also represent the subset of loans in which borrowers are experiencing financial difficulty such that an evaluation of the source of repayment is required to determine if the nonaccrual loans should be categorized as collateral dependent.

The following table provides certain information for the dates indicated with respect to the Company's allowance for credit losses as well as charge-off and recovery activity.

(dollars in thousands)	For the Six Months Ended					For the Nine Months Ended				
	June 30,		December 31,			September 30,		December 31,		
	2024	2023	2023	2022	2021	2024	2023	2023	2022	2021
Balance at beginning of period	\$ 12,867	\$ 10,717	\$ 10,717	\$ 10,352	\$ 9,902	\$ 12,867	\$ 10,717	\$ 10,717	\$ 10,352	\$ 9,902
Impact of CECL Adoption	-	529	529	-	-	-	529	529	-	-
Adjusted balance	12,867	11,246	11,246	10,352	9,902	12,867	11,246	11,246	10,352	9,902
Charge-offs:										
Commercial	65	49	123	207	188	65	108	123	207	188
Agricultural	-	-	-	-	-	-	-	-	-	-
Real estate – residential	-	-	-	-	-	-	-	-	-	-
Real estate – commercial	-	-	-	19	-	-	-	-	19	-
Real estate – construction & land	-	-	-	-	-	-	-	-	-	-
Equity Lines of Credit	-	-	-	-	-	-	-	-	-	-
Auto	896	604	1,550	1,195	703	1,292	1,042	1,550	1,195	703
Other	49	85	129	40	47	65	102	129	40	47
Total charge-offs	1,010	738	1,802	1,461	938	1,422	1,252	1,802	1,461	938
Recoveries:										
Commercial	15	12	44	27	72	21	17	44	27	72
Agricultural	-	-	-	-	-	-	-	-	-	-
Real estate – residential	2	2	3	3	3	3	2	3	3	3
Real estate – commercial	-	1	1	2	8	-	2	1	2	8
Real estate – construction & land	-	-	-	-	-	-	-	-	-	-
Equity Lines of Credit	-	-	-	-	4	-	-	-	-	4
Auto	376	305	746	482	136	642	458	746	482	136
Other	7	7	54	12	40	20	49	54	12	40
Total recoveries	400	327	848	526	263	686	528	848	526	263
Net charge-offs	610	411	954	935	675	736	724	954	935	675

Provision for credit losses - loans	1,825	2,550	2,575	1,300	1,125	1,475	2,425	2,575	1,300	1,125
Balance at end of period	\$ 14,082	\$ 13,385	\$ 12,867	\$ 10,717	\$ 10,352	\$ 13,606	\$ 12,947	\$ 12,867	\$ 10,717	\$ 10,352
Net charge-offs during the period to average loans (annualized for the six-month periods)	0.13%	0.09%	0.10%	0.11%	0.09%					
Net charge-offs during the period to average loans (annualized for the nine-month periods)						0.10%	0.10%	0.10%	0.11%	0.09%
Allowance for credit losses to total loans	1.41%	1.43%	1.34%	1.18%	1.23%	1.35%	1.35%	1.34%	1.18%	1.23%

The following table provides a breakdown of the allowance for credit losses at **June 30, 2024** September 30, 2024 and December 31, 2023:

(dollars in thousands)	Percent of				Percent of			
	Loans in Each		Loans in Each		Loans in Each		Loans in Each	
	Balance at End	Category to	Balance at End	Category to	Balance at End	Category	Balance at End	Category
	of Period	Total Loans						
	6/30/2024	6/30/2024	12/31/2023	12/31/2023	9/30/2024	9/30/2024	12/31/2023	12/31/2023
Commercial	\$ 1,426	8.1%	\$ 1,134	7.8%	\$ 1,359	8.2%	\$ 1,134	7.8%
Agricultural	1,780	12.4%	1,738	13.5%	1,770	12.1%	1,738	13.5%
Real estate – residential	121	1.2%	137	1.2%	110	1.2%	137	1.2%
Real estate – commercial	7,581	59.0%	6,678	56.8%	7,508	61.6%	6,678	56.8%
Real estate – construction & land development	973	6.8%	797	6.0%	848	5.4%	797	6.0%
Equity Lines of Credit	458	3.9%	439	4.0%	456	3.8%	439	4.0%
Auto	1,654	8.1%	1,865	10.2%	1,468	7.2%	1,865	10.2%
Other	89	0.5%	79	0.5%	87	0.5%	79	0.5%
Total	\$ 14,082	100%	\$ 12,867	100%	\$ 13,606	100%	\$ 12,867	100%

The allowance for credit losses totaled **\$14.1 million** \$13.6 million at **June 30, 2024** September 30, 2024, and \$12.9 million at December 31, 2023. At least quarterly, the Company evaluates each specific reserve and if it determines that the loss represented by the specific reserve is uncollectable it records a charge-off for the uncollectable portion. Specific reserves related to collateral dependent loans totaled **\$27,000** \$26,000 and \$28,000 at **June 30, 2024** September 30, 2024, and December 31, 2023, respectively. The allowance for credit losses as a percentage of total loans was **1.41%** 1.35% on **June 30, 2024** September 30, 2024, and 1.34% on December 31, 2023.

The following table sets forth the amount of the Company's nonperforming assets as of the dates indicated.

	At				At			
	June 30,		At December 31,		September 30,		At December 31,	
	2024	2023	2022	2021	2024	2023	2022	2021
(dollars in thousands)								
Nonaccrual loans	\$ 2,548	\$ 4,820	\$ 1,172	\$ 4,863	\$ 4,455	\$ 4,820	\$ 1,172	\$ 4,863
Loans past due 90 days or more and still accruing	6,426	-	-	-	-	-	-	-
Total nonperforming loans	8,974	4,820	1,172	4,863	4,455	4,820	1,172	4,863
Other real estate owned	141	357	-	487	141	357	-	487
Other vehicles owned	33	138	18	47	157	138	18	47
Total nonperforming assets	\$ 9,148	\$ 5,315	\$ 1,190	\$ 5,397	\$ 4,753	\$ 5,315	\$ 1,190	\$ 5,397
Interest income forgone on nonaccrual loans	\$ 121	\$ 257	\$ 121	\$ 381	\$ 251	\$ 257	\$ 121	\$ 381

Interest income recorded on a cash basis on nonaccrual loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonperforming loans to total loans	0.90 %	0.50 %	0.13 %	0.58 %	0.44 %	0.50 %	0.13 %	0.58 %			
Nonperforming assets to total assets	0.56 %	0.33 %	0.07 %	0.33 %	0.29 %	0.33 %	0.07 %	0.33 %			

The Company places loans 90 days or more past due on nonaccrual status unless the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 90 days. When a loan is placed on nonaccrual status the Company's general policy is to reverse and charge against current income previously accrued but unpaid interest. Interest income on such loans is subsequently recognized only to the extent that cash is received and future collection of principal is deemed by management to be probable. Where the collectability of the principal or interest on a loan is considered to be doubtful by management, it is placed on nonaccrual status prior to becoming 90 days delinquent.

Nonperforming loans at **June 30, 2024** **September 30, 2024** were **\$9.0 million** **\$4.5 million**, an increase a decrease of **\$4.2 million** **\$0.3 million** from **\$4.8 million** at December 31, 2023. Included in nonperforming loans at June 30, 2024 were agricultural loans from one borrower totaling **\$6.2 million** which were over 90 days past due but not nonaccrual. We received payments on these loans totaling **\$1.6 million** in July and concurrently with these payments we extended the maturity of the loans to August 15, 2024 which allows time for the borrower to sell the crops securing the remaining balance of principal and interest on the loans. Nonaccrual loans totaled **\$2.5 million** at June 30, 2024, and **\$4.8 million** at December 31, 2023.

A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Total substandard loans decreased increased by **\$3.7 million** **\$0.7 million** from **\$21.7 million** on December 31, 2023, to **\$18.0 million** **\$22.4 million** on **June 30, 2024** **September 30, 2024**. Loans classified as special mention increased by **\$0.4 million** **\$4.8 million** from **\$9.3 million** on December 31, 2023, to **\$9.7 million** **\$14.1 million** on **June 30, 2024** **September 30, 2024**.

It is the policy of management to make additions to the allowance for credit losses so that it remains appropriate to absorb the inherent risk of loss in the portfolio. Management believes that the allowance on **June 30, 2024** **September 30, 2024**, is appropriate. However, the determination of the amount of the allowance is judgmental and subject to economic conditions which cannot be predicted with certainty. Accordingly, the Company cannot predict whether charge-offs of loans in excess of the allowance may occur in future periods.

OREO represent real property acquired by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. Repossessed assets include vehicles and other commercial assets acquired under agreements with delinquent borrowers. OREO holdings represented one property totaling **\$141,000** on **June 30, 2024** **September 30, 2024**, and one property totaling **\$357,000** at December 31, 2023.

Nonperforming assets as a percentage of total assets were **0.56%** **0.29%** at **June 30, 2024** **September 30, 2024** and **0.33%** at December 31, 2023.

The following table provides a summary of the change in the number and balance of OREO properties for the **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023 (dollars in thousands):

	Six Months Ended June 30,				Nine Months Ended September 30,			
	#	2024	#	2023	#	2024	#	2023
	1	\$ 357	-	\$ -	1	\$ 357	-	\$ -
Beginning Balance	1	141	1	83	1	141	2	440
Additions	1	(357)	-	-	1	(357)	-	-
Dispositions	1	-	-	-	1	-	-	-
Provision from change in OREO valuation	-	-	-	-	-	-	-	-
Ending Balance	1	\$ 141	1	\$ 83	1	\$ 141	2	\$ 440

Investment Portfolio and Federal Funds Sold. Total investment securities were **\$445.1 million** **\$456.7 million** as of **June 30, 2024** **September 30, 2024**, and **\$489.2 million** at December 31, 2023. Unrealized losses on available-for-sale investment securities totaling **\$35,645,000** **\$20.9 million** were recorded, net of **\$10,536,000** **\$6.2 million** in tax benefit, as accumulated other comprehensive loss within shareholders' equity at **June 30, 2024** **September 30, 2024**. Net unrealized losses on available-for-sale investment securities totaling **\$46.1 million** were recorded, net of **\$13.6 million** in tax benefit, as accumulated other comprehensive loss within shareholders' equity at December 31, 2023. During the **six nine** months ended **June 30, 2024** **first quarter of 2024** we sold **\$115 million** **\$116 million** in investment securities having a weighted average tax equivalent yield of 2.24% recording a **\$19.8 million** loss on sale. Beginning in December 2023 and ending on March 27, 2024 we purchased **\$120 million** in **investments** **investment** securities having a weighted average tax equivalent yield of 5.25%. These sales and purchases were made as part of the investment restructure described earlier. No securities were sold during the **six nine** months ended **June 30, 2023** **September 30, 2023**.

The investment portfolio at **June 30, 2024** **September 30, 2024**, consisted of **\$3.9 million** **\$4.0 million** in U.S. Treasury securities, **\$352.6 million** **\$363.1 million** in securities of U.S. Government-sponsored agencies and U.S. Government agencies, and **173** **170** municipal securities totaling **\$88.6** **\$89.6** million. The investment portfolio at December 31, 2023 consisted of \$6.9 million in U.S. Treasury securities, \$351.9 million in securities of U.S. Government-sponsored agencies and U.S. Government agencies and 244 municipal securities totaling \$130.4 million.

There were no Federal funds sold at **June 30, 2024** **September 30, 2024**, and December 31, 2023; however, the Bank maintained interest earning balances at the Federal Reserve Bank totaling **\$75.2 million** **\$82.3 million** at **June 30, 2024** **September 30, 2024** and \$52.9 million at December 31, 2023. The balance, on **June 30, 2024** **September 30, 2024**, earns interest at the rate of **5.40%** **4.90%**.

The Company classifies its investment securities as available-for-sale or held-to-maturity. Currently all securities are classified as available-for-sale. Securities classified as available-for-sale may be sold to implement the Company's asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors.

The following table shows the distribution of deposits by type at **June 30, 2024** **September 30, 2024** and December 31, 2023.

(dollars in thousands)	Percent of Deposits in Each							
	Balance at End of Period	Category to Total Deposits						
Distribution of Deposits by Type								
Non-interest bearing	\$ 670,652	51.4 %	\$ 692,768	51.9 %	\$ 703,005	52.0 %	\$ 692,768	51.9 %
Money Market	214,063	16.4 %	214,185	16.1 %	229,267	17.0 %	214,185	16.1 %
Savings	322,081	24.7 %	335,050	25.1 %	316,483	23.4 %	335,050	25.1 %
Time	97,791	7.5 %	91,652	6.9 %	102,241	7.6 %	91,652	6.9 %
Total Deposits	\$ 1,304,587	100%	\$ 1,333,655	100%	\$ 1,350,996	100%	\$ 1,333,655	100%

Total deposits were \$1.3 billion at June 30, 2024. Deposits totaled \$1.4 billion September 30, 2024, a decrease an increase of **\$29 million** **\$17 million** from December 31, 2023. The decrease increase in deposits includes decreases increases of **\$22 million** **\$15 million** in money market accounts, **\$11 million** in time deposits and **\$10 million** in demand deposits and **\$13 million** in savings deposits. Partially offsetting these decreases increases was an increase a decrease in time savings deposits of **\$6 million** **\$19 million**. We attribute much of the decrease to the current interest rate environment as we have seen some deposits leave for higher rates and some customers reluctant to borrow to fund operating expense and instead have drawn down their excess deposit balances. Beginning in April 2023 we began offering a time deposit promotion offering 7-month and 11-month time deposits at an interest rate of 4%. Effective June 30, 2023 we discontinued this promotion which generated \$46 million in deposits. However, beginning in the fourth quarter of 2023 we allowed those customers who had promotional time deposits to renew those deposits at similar terms. At **June 30, 2024** **September 30, 2024**, **51%** **52%** of the Company's deposits were in the form of non-interest-bearing demand deposits. The Company has no brokered deposits.

Deposits represent the Bank's primary source of funds. Deposits are primarily core deposits in that they are demand, savings and time deposits generated from local businesses and individuals. These sources are considered to be relatively stable, long-term relationships thereby enhancing steady growth of the deposit base without major fluctuations in overall deposit balances. However, during 2023 and continuing into 2024 we have experienced a decline in these core deposits. The Company experiences, to a small degree, some seasonality with the slower growth period between November through April, and the higher growth period from May through October. To assist in meeting any funding demands, the Company maintains several borrowing agreements as described below.

Estimated uninsured deposits totaled **\$423 million** **\$456 million** and \$416 million at **June 30, 2024** **September 30, 2024**, and December 31, 2023, respectively. Uninsured amounts are estimated based on the portion of the account balances in excess of FDIC insurance limits.

The following table presents the maturity distribution of the portion of time deposits in excess of the FDIC insurance limit.

(dollars in thousands)	Maturity Distribution of Estimated Uninsured Time Deposits		June 30, 2024		December 31, 2023		September 30, 2024	December 31, 2023
	Remaining maturity:	Three months or less						
			\$	4,928	\$	6,044	\$	4,491
Remaining maturity:	Three months or less		\$	4,928	\$	6,044	\$	6,044

After three through six months	3,822	10,097		
After three through nine months			10,921	10,097
After six through twelve months	11,875	5,428	9,107	5,428
After twelve months	566	757	14	757
Total	\$ 21,191	\$ 22,326	\$ 24,533	\$ 22,326

Repurchase Agreements. The Bank offers a repurchase agreement product for its larger customers which use securities sold under agreements to repurchase as an alternative to interest-bearing deposits. Securities sold under agreements to repurchase totaling \$13.9 million \$17.0 million and \$23.1 million at June 30, 2024 September 30, 2024 and December 31, 2023, respectively, are secured by U.S. Government agency securities with a carrying amount of \$29.8 million \$30.4 million and \$34.1 million at June 30, 2024 September 30, 2024 and December 31, 2023, respectively. Interest paid on this product is similar to, but less than, that which is paid on the Bank's money market accounts; however, these are not deposits and are not FDIC insured.

Short-term Borrowing Arrangements. The Company is a member of the Federal Home Loan Bank of San Francisco (FHLB) and can borrow up to \$234 million \$240 million from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$431 million \$426 million. The Company is required to hold FHLB stock as a condition of membership. At June 30, 2024 September 30, 2024, the Company held \$6.2 million of FHLB stock which is recorded as a component of other assets.

The Federal Reserve Board, on March 12, 2023, announced the creation of the Bank Term Funding Program (BTFP). The BTFP offers loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets will be valued at par. At December 31, 2023, the Company had outstanding borrowings under the BTFP Bank Term Funding Program (BTFP) totaling \$80 million. In January 2024, the Company borrowed an additional \$25 million under the BTFP for and during September 2024 we made a total \$45 million payment resulting in a balance of \$105 million \$60 million outstanding at June 30, 2024 September 30, 2024. This borrowing accrues bears interest at the rate of 4.85% and is payable on January 17, 2025. Borrowings under the BTFP can be prepaid without penalty. There were no borrowings under the BTFP during the nine months ended September 30, 2023. Interest expense recognized on the BTFP borrowings for the six nine months ended June 30, 2024 and 2023, September 30, 2024 totaled \$2.5 million and \$0, respectively, \$3.7 million. In addition to its FHLB borrowing line and the BTFP, the Company has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of \$50 million and \$20 million. There were no outstanding borrowings from the FHLB or the correspondent banks at June 30, 2024 September 30, 2024, and December 31, 2023.

Note Payable. On January 25, 2022 the Company replaced its existing \$15 million line of credit facility with a \$15 million Loan Agreement (the "Loan Agreement") and Promissory Note (the "Term Note"). The Term Note matures on January 25, 2035 and can be prepaid at any time. During the initial three years of the Loan Agreement the Term Note functions as an interest only revolving line of credit. Beginning on year four the Term Note converts into a term loan requiring semi-annual principal and interest payments and no further advances can be made. The proceeds of this lending facility shall be used by the Company for general corporation purposes, and to provide capital injections into the Bank. The Term Note bears interest at a fixed rate of 3.85% for the first 5 years and then at a floating interest rate linked to WSJ Prime Rate for the remaining eight year term. The Loan Agreement provides for a \$187,500 loan fee. The Note is secured by the common stock of the Bank. The Loan Agreement contains certain financial and non-financial covenants, which include, but are not limited to, a minimum leverage ratio at the Bank, a minimum total risk-based capital ratio at the Bank, a maximum Texas Ratio at the Bank, a minimum level of Tier 1 capital at the Bank and a return on average assets needed to generate a 1.25X debt service coverage ratio. The Loan Agreement also contains customary events of default, including, but not limited to, failure to pay principal or interest, the commencement of certain bankruptcy proceedings, and certain adverse regulatory events affecting the Company or the Bank. Upon the occurrence of an event of default under the Loan Agreement, the Company's obligations under the Loan Agreement may be accelerated. In March 2023 the Company borrowed \$10 million on this note and used the proceeds to redeem its Trust Preferred securities. During January of 2024 the Company borrowed an additional \$5 million under this note for general corporate purposes. The Company was in compliance with all covenants related to the Term Note at June 30, 2024 September 30, 2024. Interest expense recognized on the Term Note for the six nine months ended June 30, 2024 September 30, 2024 and 2023 totaled \$313,000 \$477,000 and \$141,000 \$255,000, respectively.

Capital Resources

Shareholders' equity increased by \$17.8 million \$34.6 million from \$147.3 million at December 31, 2023 to \$165.1 \$181.9 million at June 30, 2024 September 30, 2024. The \$17.8 million \$34.6 million increase was related to net income during the six nine months ended June 30, 2024 September 30, 2024, of \$13.0 million, \$20.9 million, stock option activity of \$623,000 \$780,000 and a decrease of other comprehensive loss of \$7.4 million \$17.7 million related to the investment portfolio restructuring and a decline in market interest rates. These items were partially offset by shareholder dividends of \$3.2 million \$4.8 million.

It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends. Such dividends help promote shareholder value and capital adequacy by enhancing the marketability of the Company's stock. All authority to provide a return to the shareholders in the form of a cash or stock dividend or split rests with the Board of Directors. The Board will periodically, but on no regular schedule, review the appropriateness of a cash dividend payment. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. The Company is subject to various restrictions on the payment of dividends.

The Company paid a quarterly cash dividend of \$0.27 per share on August 15, 2024, May 15, 2024 and February 15, 2024, and a quarterly cash dividend of \$0.25 per share on November 15, 2023, August 15, 2023, May 15, 2023, and February 15, 2023.

Capital Standards. The Company uses a variety of measures to evaluate its capital adequacy. Management reviews these capital measurements on a monthly basis and takes appropriate action to ensure that they are within established internal and external guidelines. The FDIC has promulgated risk-based capital guidelines for all state non-member banks such as the Bank. These guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures.

In July, 2013, the federal bank regulatory agencies adopted rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. depository organizations, sometimes called "Basel III," that increased the minimum regulatory capital requirements for bank holding companies and depository institutions and implemented strict eligibility criteria for regulatory capital instruments. The Basel III capital rules include a minimum common equity Tier 1 ratio of 4.5%, a Tier 1 capital ratio of 6.0%, a total risk-based capital ratio of 8.0%, and a minimum leverage ratio of 4.0% (calculated as Tier 1 capital to average consolidated assets). The minimum capital levels required to be considered "well capitalized" include a common equity Tier 1 ratio of 6.5%, a Tier 1 risk-based capital ratio of 8.0%, a total risk-based capital ratio of 10.0% and a leverage ratio of 5.0%. In addition, the Basel III capital rules require that banking organizations maintain a capital conservation buffer of 2.5% above the minimum capital requirements in order to avoid restrictions on their ability to pay dividends, repurchase stock or pay discretionary bonuses. Including the capital conservation buffer of 2.5%, the Basel III capital rules require the following minimum ratios for a bank holding company or bank to be considered well capitalized: a common equity Tier 1 capital ratio of 7.0%; a Tier 1 capital ratio of 8.5%, and a total capital ratio of 10.5%. At June 30, 2024 September 30, 2024 and December 31, 2023, the Bank's capital ratios exceeded the thresholds necessary to be considered "well capitalized" under the Basel III framework.

Under the FRB's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (the "Policy Statement"), qualifying bank holding companies with less than \$3 billion in consolidated assets are exempt from the Basel III consolidated capital rules. The Company qualifies for treatment under the Policy Statement and is not currently subject to the Basel III consolidated capital rules at the bank holding company level. The Basel III capital rules continue to apply to the Bank.

In 2019, the federal bank regulators issued a rule establishing a "community bank leverage ratio" (the ratio of a bank's tier 1 capital to average total consolidated assets) that qualifying institutions with less than \$10 billion in assets may elect to use in lieu of the generally applicable leverage and risk-based capital requirements under Basel III. A qualifying banking organization that elects to use the new ratio will be considered to have met all applicable federal regulatory capital and leverage requirements, including the minimum capital levels required to be considered "well capitalized" if it maintains a community bank leverage ratio exceeding 9%. The new rule became effective on January 1, 2020. Plumas Bank has chosen not to opt into the community bank leverage ratio at this time.

The following table sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Minimum Amount of Capital Required						Minimum Amount of Capital Required					
	To be Well-Capitalized						To be Well-Capitalized					
	For Capital		Under Prompt		For Capital		Under Prompt					
	Actual	Adequacy Purposes (1)	Actual	Adequacy Purposes (1)	Actual	Corrective Provisions	Actual	Adequacy Purposes (1)	Actual	Corrective Provisions	Actual	Corrective Provisions
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2024												
September 30, 2024												
Common Equity Tier 1 Ratio	\$ 187,987	16.4%	\$ 51,719	4.5%	\$ 74,706	6.5%	\$ 193,710	16.9%	\$ 51,481	4.5%	\$ 74,362	6.5%
Tier 1 Leverage Ratio	187,987	11.3%	66,507	4.0%	83,133	5.0%	193,710	11.3%	68,498	4.0%	85,622	5.0%
Tier 1 Risk-Based Capital Ratio	187,987	16.4%	68,959	6.0%	91,946	8.0%	193,710	16.9%	68,642	6.0%	91,522	8.0%
Total Risk-Based Capital Ratio	202,359	17.6%	91,946	8.0%	114,932	10.0%	207,986	18.2%	91,522	8.0%	114,403	10.0%
December 31, 2023												
Common Equity Tier 1 Ratio	\$ 179,194	15.7%	\$ 51,294	4.5%	\$ 74,092	6.5%	\$ 179,194	15.7%	\$ 51,294	4.5%	\$ 74,092	6.5%
Tier 1 Leverage Ratio	179,194	10.8%	66,348	4.0%	82,935	5.0%	179,194	10.8%	66,348	4.0%	82,935	5.0%
Tier 1 Risk-Based Capital Ratio	179,194	15.7%	68,392	6.0%	91,190	8.0%	179,194	15.7%	68,392	6.0%	91,190	8.0%
Total Risk-Based Capital Ratio	192,860	16.9%	91,190	8.0%	113,987	10.0%	192,860	16.9%	91,190	8.0%	113,987	10.0%

(1) Does not include amounts required to maintain the capital conservation buffer under the new capital rules.

Management believes that Plumas Bank currently meets all its capital adequacy requirements.

The current and projected capital positions of the Bank and the impact of capital plans and long-term strategies are reviewed regularly by management. The Company policy is to maintain the Bank's ratios above the prescribed well-capitalized ratios at all times.

Off-Balance Sheet Arrangements

Loan Commitments. In the normal course of business, there are various commitments outstanding to extend credits that are not reflected in the financial statements. Commitments to extend credit and letters of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Annual review of commercial credit lines, letters of credit and ongoing monitoring of outstanding balances reduces the risk of loss associated with these commitments. As of **June 30, 2024** **September 30, 2024**, the Company had **\$162.4** **\$158.7** million in unfunded loan commitments and no letters of credit. This compares to \$174.6 million in unfunded loan commitments and \$108,000 in letters of credit at December 31, 2023. Of the **\$162.4** **\$158.7** million in unfunded loan commitments, **\$98.5 million** **\$95.7 million** and **\$63.9** **\$63.0** million represent commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at **June 30, 2024** **September 30, 2024**, **\$100.6** **\$94.4** million were secured by real estate, of which **\$45.8 million** **\$40.4 million** was secured by commercial real estate and **\$54.8** **\$54.0** million was secured by residential real estate mostly in the form of equity lines of credit. The commercial loan commitments not secured by real estate primarily represent business lines of credit, while the consumer loan commitments not secured by real estate primarily represent revolving credit card lines and overdraft protection lines. Since some of the commitments are expected to expire without being drawn upon the total commitment amounts do not necessarily represent future cash requirements.

Liquidity

The Company manages its liquidity to provide the ability to generate funds to support asset growth, meet deposit withdrawals (both anticipated and unanticipated), fund customers' borrowing needs and satisfy maturity of short-term borrowings. The Company's liquidity needs are managed using assets or liabilities, or both. On the asset side, in addition to cash and due from banks, the Company maintains an investment portfolio which includes unpledged U.S. Government-sponsored agency securities that are classified as available-for-sale. On the liability side, liquidity needs are managed by offering competitive rates on deposit products and the use of established lines of credit.

The Company is a member of the FHLB and can borrow up to **\$234 million** **\$240 million** from the FHLB secured by commercial and residential mortgage loans with carrying values totaling **\$431 million** **\$426 million**. In addition to its FHLB borrowing line, the Company has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of \$50 million and \$20 million. There were no outstanding borrowings to the FHLB, or the correspondent banks at **June 30, 2024** **September 30, 2024**, and December 31, 2023.

Customer deposits are the Company's primary source of funds. **Total deposits were \$1.3 billion at June 30, 2024** **Deposits totaled \$1.4 billion September 30, 2024**, a decrease an increase of **\$29 million** **\$17 million** from December 31, 2023. Deposits are held in various forms with varying maturities. The Company estimates that it has approximately **\$423 million** **\$456 million** in uninsured deposits. Of this amount, **\$100 million** **\$104 million** represents deposits that are collateralized such as deposits of states, municipalities and tribal accounts.

The Company's securities portfolio, Federal funds sold, FHLB advances, and cash and due from banks serve as the primary sources of liquidity, providing adequate funding for loans during periods of high loan demand. During periods of decreased lending, funds obtained from the maturing or sale of investments, loan payments, and new deposits are invested in short-term earning assets, such as cash held at the FRB, Federal funds sold and investment securities, to serve as a source of funding for future loan growth. Management believes that the Company's available sources of funds, including borrowings, will provide adequate liquidity for its operations in the foreseeable future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of **June 30, 2024** **September 30, 2024**. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of **June 30, 2024** **September 30, 2024**.

Changes in Internal Control over Financial Reporting

There were 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 **June 30, 2024** **September 30, 2024** that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company and/or its subsidiary are a party to claims and legal proceedings arising in the ordinary course of business. In the opinion of the Company's management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or results of operations of the Company taken as a whole.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Form 10-Q you should carefully consider the risk factors that appeared under Item 1A, "Risk Factors" in the Company's 2023 Annual Report. There are no material changes from the risk factors included within the Company's 2023 Annual Report.

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

(a) None.

(b) None.

(c) None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The following documents are included or incorporated by reference in this Quarterly Report on Form 10Q:

- 3.1 [Articles of Incorporation as amended of Registrant included as Exhibit 3.1 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.](#)
- 3.2 [Bylaws of Registrant as amended on August 16, 2023 included as Exhibit 3.1 to the Registrant's Form 8-K for August 17, 2023, which is incorporated by reference herein.](#)

3.3 [Amendment of the Articles of Incorporation of Registrant dated November 1, 2002, is included as Exhibit 3.3 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.](#)

3.4 [Amendment of the Articles of Incorporation of Registrant dated August 17, 2005, is included as Exhibit 3.4 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.](#)

4 [Specimen form of certificate for Plumas Bancorp included as Exhibit 4 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.](#)

4.1 [Description of Securities of Plumas Bancorp Registered Under Section 12 of the Exchange Act, is included as Exhibit 4.1 to the Registrant's 10-K for December 31, 2023, which is incorporated by this reference herein.](#)

10.1 [Termination Agreement 2024 by and between Plumas Bank and Mountainseed Real Estate Services, LLC is included as Exhibit 10.3 to the Registrant's 8-K filed August 15, 2024, which is incorporated by this reference herein.](#)

31.1* [Rule 13a-14\(a\) \[Section 302\] Certification of Principal Financial Officer dated August 7, 2024 November 6, 2024.](#)

31.2* [Rule 13a-14\(a\) \[Section 302\] Certification of Principal Executive Officer dated August 7, 2024 November 6, 2024.](#)

32.1* [Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 7, 2024 November 6, 2024.](#)

32.2* [Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 7, 2024 November 6, 2024.](#)

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).

* Filed herewith

SIGNATURES

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

PLUMAS BANCORP
(Registrant)

Date: [August 7, 2024 November 6, 2024](#)

/s/ Richard L. Belstock

Richard L. Belstock

Chief Financial Officer

/s/ Andrew J. Ryback

Andrew J. Ryback

Director, President and Chief Executive Officer

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Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Richard L. Belstock, Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-Q of Plumas Bancorp;
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 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 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: **August 7, 2024** November 6, 2024

/s/ Richard L. Belstock

Exhibit 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Andrew J. Ryback, Chief Executive Officer, certify that:

1. I have reviewed this report on Form 10-Q of Plumas Bancorp;
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 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 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: **August 7, 2024** November 6, 2024

/s/ Andrew J. Ryback

Andrew J. Ryback, Chief Executive Officer

Exhibit 32.1

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Plumas Bancorp (the "Company") hereby certifies, to such officer's knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended **June September** 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **August 7, 2024** November 6, 2024

/s/ Richard L. Belstock

Richard L. Belstock, Chief Financial Officer

Exhibit 32.2

Certification of Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Plumas Bancorp (the "Company") hereby certifies, to such officer's knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended **June September** 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **August 7, 2024** November 6, 2024

/s/ Andrew J. Ryback

Andrew J. Ryback, Chief Executive Officer

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