

REFINITIV

# DELTA REPORT

## 10-Q

FUSB - FIRST US BANCSHARES, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

**TOTAL DELTAS** 2060

 **CHANGES** 394

 **DELETIONS** 1116

 **ADDITIONS** 550

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, March 31, 2023** 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission File Number: 0-14549

**First US Bancshares, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

63-0843362

(State or Other Jurisdiction of  
Incorporation or Organization)

(IRS Employer  
Identification No.)

3291 U.S. Highway 280

35243

Birmingham, AL

(Address of Principal Executive Offices)

(Zip Code)

(205) 582-1200

(Registrant's Telephone Number, Including Area Code)

N/A

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	FUSB	The Nasdaq Stock Market LLC

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

<u>Class</u>	<u>Outstanding at November 6, 2023 May 3, 2024</u>
Common Stock, \$0.01 par value	5,874,7815,788,672 shares

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## FIRST US BANCSHARES, INC. AND SUBSIDIARIES

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#### FORWARD-LOOKING STATEMENTS

Statements contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). In addition, First US Bancshares, Inc. ("Bancshares" and, together with its subsidiaries, the "Company"), through its senior management, from time to time makes forward-looking statements concerning its expected future operations, performance and other developments. The words "estimate," "project," "intend," "anticipate," "expect," "believe," "continues" and similar expressions are indicative of forward-looking statements. Such forward-looking statements are necessarily estimates reflecting the Company's best judgment based on current information and involve a number of risks and uncertainties. Certain factors that could affect the accuracy of such forward-looking statements and cause actual results to differ materially from those projected in such forward-looking statements are identified in the Company's filings with the Securities and Exchange Commission ("SEC"), and forward-looking statements contained herein or in other public statements of the Company or its senior management should be considered in light of those factors. Such factors may include adverse developments in the financial services industry; the effects of any government shutdown; loan losses may be greater than anticipated; our ability to ensure that sufficient cash flow and liquid assets are available to satisfy current and future financial obligations; the increased lending risks associated with commercial real estate lending; liquidity risks; the impact of national and local market conditions on the Company's business and operations; strong competition in the banking industry; the impact of changes in interest rates and monetary policy on the Company's performance and financial condition; the pending discontinuation of LIBOR as an interest rate benchmark; the impact of technological changes in the banking and financial service industries and potential information system failures; cybersecurity and data privacy threats; the costs of complying with extensive governmental regulation; the risk that internal controls and procedures might fail or be circumvented; the impact of changing tax laws on the Company's financial results; the potential impact of climate change and related legislative and regulatory initiatives; the possibility that acquisitions may not produce anticipated results and result in unforeseen integration difficulties; the rate of growth (or lack thereof) in the economy generally and in the Company's service areas; the volatility of our stock price and our dependence on the soundness of other financial institutions; and other risk factors described from time to time in the Company's public filings, including, but not limited to, the Company's most recent Annual Report on Form 10-K. Relative to the Company's dividend policy, the payment of cash dividends is subject to the discretion of the Board of Directors and will be determined in light of then-current conditions, including the Company's earnings, leverage, operations, financial conditions, capital requirements and other factors deemed relevant by the Board of Directors. In the future, the Board of Directors may change the Company's dividend policy, including the frequency or amount of any dividend, in light of then-existing conditions.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST US BANCSHARES, INC. AND SUBSIDIARIES  
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands, Except Share Amounts)

	September	December	March 31, (Unaudited)	December 31, (Unaudited)
	30, 2023	31, 2022		
<b>ASSETS</b>	<b>ASSETS</b>	<b>ASSETS</b>		
Cash and due from banks	\$ 10,311	\$ 11,844	\$ 18,557	\$ 12,987
Interest-bearing deposits in banks	55,818	18,308	41,685	37,292
Total cash and cash equivalents	66,129	30,152	60,242	50,279
Federal funds sold	1,143	1,768	5,532	9,475
Investment securities available-for-sale, at fair value	126,551	130,795	125,380	135,565
Investment securities held-to-maturity, at amortized cost	1,272	1,862	983	1,104
Federal Home Loan Bank stock, at cost	2,151	1,359	1,494	1,201
Loans and leases held for investment	815,300	773,873	822,941	821,791
Less allowance for credit losses	11,380	9,422		
Less allowance for credit losses on loans and leases			10,436	10,507
Net loans and leases held for investment	803,920	764,451	812,505	811,284
Premises and equipment, net of accumulated depreciation	24,259	24,439	25,041	24,398
Cash surrender value of bank-owned life insurance	16,622	16,399	16,788	16,702
Accrued interest receivable	3,522	3,011	4,148	3,976
Goodwill and core deposit intangible, net	7,642	7,801	7,569	7,606
Other real estate owned	617	686	572	602
Other assets	11,411	11,944	10,287	10,748
Total assets	\$ 1,065,239	\$ 994,667	\$ 1,070,541	\$ 1,072,940
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:				
Non-interest-bearing	\$ 157,652	\$ 169,822	\$ 142,944	\$ 153,591
Interest-bearing	769,386	700,203	800,324	796,600
Total deposits	927,038	870,025	943,268	950,191
Accrued interest expense	1,864	607	1,714	2,030

Other liabilities	8,148	8,136	7,416	9,327
Short-term borrowings	30,000	20,038	15,000	10,000
Long-term borrowings	10,781	10,726	10,817	10,799
Total liabilities	977,831	909,532	978,215	982,347
Shareholders' equity:				
Common stock, par value \$0.01 per share, 10,000,000 shares authorized; 7,738,156 and 7,680,856 shares issued, respectively; 5,874,781 and 5,812,258 shares outstanding, respectively	75	75		
Common stock, par value \$0.01 per share, 10,000,000 shares authorized; 7,794,911 and 7,738,201 shares issued, respectively; 5,787,441 and 5,735,075 shares outstanding, respectively			75	75
Additional paid-in capital	14,824	14,510	15,122	14,972
Accumulated other comprehensive loss, net of tax	(8,907)	(7,241)	(6,621)	(6,431)
Retained earnings	107,976	104,460	111,777	109,959
Less treasury stock: 1,863,375 and 1,868,598 shares at cost, respectively	(26,560)	(26,669)		
Less treasury stock: 2,007,470 and 2,003,126 shares at cost, respectively			(28,027)	(27,982)
Total shareholders' equity	87,408	85,135	92,326	90,593
Total liabilities and shareholders' equity	\$ 1,065,239	\$ 994,667	\$ 1,070,541	\$ 1,072,940

The accompanying notes are an integral part of these Interim Condensed Consolidated Statements.

**FIRST US BANCSHARES, INC. AND SUBSIDIARIES**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in Thousands, Except Per Share Data)

Three Months		Nine Months	Three Months Ended
Ended	Ended	Three Months Ended	

	September 30,		September 30,		March 31,			
	2023		2022		2024		2023	
	(Unaudited)		(Unaudited)		(Unaudited)			
<b>Interest income:</b>								
Interest and fees on loans	12,5	9,75	35,3	27,3				
	\$ 84	\$ 0	\$ 30	\$ 39	\$	12,853	\$	10,982
Interest on investment securities			2,04	1,92			865	
Interest on deposits in banks	685	756	3	7				683
			1,36				452	
Other	598	136	2	265				238
	35	28	126	45		107		57
Total interest income	13,9	10,6	38,8	29,5				
	02	70	61	76		14,277		11,960
<b>Interest expense:</b>								
Interest on deposits	4,22		9,68	1,96				
	2	864	1	4		5,099		2,137
Interest on borrowings	197	291	940	562		138		389
Total interest expense	4,41	1,15	10,6	2,52				
	9	5	21	6		5,237		2,526
Net interest income	9,48	9,51	28,2	27,0				
	3	5	40	50		9,040		9,434
Provision for credit losses			1,16	2,78				
	184	5	753	1		—		269
Net interest income after provision for credit losses	9,29	8,35	27,4	24,2				
	9	0	87	69		9,040		9,165
<b>Non-interest income:</b>								
Service and other charges on deposit accounts								
	302	311	869	904		299		285
Lease income	241	210	707	635		257		231
Other income, net					1,23			
	294	567	889	4		309		313
Total non-interest income		1,08	2,46	2,77				
	837	8	5	3		865		829
<b>Non-interest expense:</b>								
Salaries and employee benefits	4,12	4,00	12,3	12,3				
	0	7	10	89		4,088		4,222
Net occupancy and equipment					2,62	2,46		
	897	861	5	8		894		835

Computer services		1,31	1,22			
	464	417	5	4	443	421
Insurance expense and assessments		1,15				
	423	310	6	970	391	327
Fees for professional services	331	263	735	811	341	245
Other expense	1,08	1,17	3,59	3,10		
	4	4	9	4	990	1,220
Total non-interest expense	7,31	7,03	21,7	20,9		
	9	2	40	66	7,147	7,270
Income before income taxes	2,81	2,40	8,21	6,07		
	7	6	2	6	2,758	2,724
Provision for income taxes			2,00	1,44		
	704	546	4	0	651	652
Net income	2,11	1,86	6,20	4,63		
	\$ 3	\$ 0	\$ 8	\$ 6	\$ 2,107	\$ 2,072
Basic net income per share	\$ 0.35	\$ 0.31	\$ 1.04	\$ 0.76	\$ 0.36	\$ 0.35
Diluted net income per share	\$ 0.33	\$ 0.29	\$ 0.97	\$ 0.71	\$ 0.34	\$ 0.33
Dividends per share	\$ 0.05	\$ 0.03	\$ 0.15	\$ 0.09	\$ 0.05	\$ 0.05

The accompanying notes are an integral part of these Interim Condensed Consolidated Statements.

**FIRST US BANCSHARES, INC. AND SUBSIDIARIES**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Dollars in Thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
			(Unaudited)	
Net income	\$ 2,113	\$ 1,860	\$ 6,208	\$ 4,636
Other comprehensive income (loss):				

Unrealized holding losses on securities available-for-sale arising during period, net of tax benefit of \$58, \$350, \$425, and \$2,768, respectively	(167)	(1,048)	(1,271)	(8,307)
Unrealized holding gains (losses) arising during the period on effective cash flow hedge derivatives, net of tax benefit (expense)				
of \$0, (\$130), \$18 and (\$443), respectively	—	393	(50)	1,330
Reclassification adjustments on cash flow hedge derivatives realized in net income, net of tax benefit (expense) of \$39, (\$9), \$116 and (\$14), respectively	(118)	27	(345)	41
Other comprehensive loss	(285)	(628)	(1,666)	(6,936)
Total comprehensive income (loss)	<u>\$ 1,828</u>	<u>\$ 1,232</u>	<u>\$ 4,542</u>	<u>\$ (2,300)</u>

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(Unaudited)</b>	
Net income	\$ 2,107	\$ 2,072
Other comprehensive income (loss):		
Unrealized holding losses on securities available-for-sale arising during period, net of tax benefit of \$24, and \$105, respectively	(73)	(313)
Unrealized holding losses arising during the period on effective cash flow hedge derivatives, net of tax benefit of \$0 and \$18, respectively	—	(50)
Reclassification adjustments on cash flow hedge derivatives realized in net income, net of tax benefit of \$39 and \$37, respectively	(117)	(110)
Other comprehensive loss	<u>(190)</u>	<u>(473)</u>
Total comprehensive income	<u>\$ 1,917</u>	<u>\$ 1,599</u>

The accompanying notes are an integral part of these Interim Condensed Consolidated Statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Dollars in Thousands, Except Share and Per Share Data)

For the three months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** (Unaudited)

Co m mo n St oc k Sh are s Ou tst an din g										Ac cu mul ate d Oth er Co asu Sh Pai mp Ret ry ain Sto hol in Ca ive Ear at s' pita Los nin Co Eq ck l s gs st uity									
										Common		Accumulated							
										Stock	Common	Additional		Other		Treasury	Total		
										Shares	Common	Paid-in		Comprehensive		Retained	Stock,	Shareholders'	
										Outstanding	Stock	Capital		Loss		Earnings	at Cost	Equity	
Balance, June 30, 2022										5,									
										8		1							
										7	1	0		(2		8			
										6,	4,	(6		0,		6,	2,		
										2	2	.5		8		0	5		
										5	7	6		8		1	7		
										8	\$ 5	\$ 3		\$ 4)		\$ 8	\$ 6)	\$ 6	
Net income												1,		1,					
												8		8					
												6		6					
										—	—	—		0		—	0		
Net change in fair value of securities												(1		(1					
available-for- sale,												,0		,0					
net of tax										—	—	8)		—		—	8)		

Net change in						
fair value of						
derivative						
instruments,	4		4			
net	2		2			
of tax	—	—	0	—	—	0
Dividends						
declared:		(1		(1		
\$0.03 per		7		7		
share	—	—	—	—	5)	—
Impact of						
stock-based		1		1		
compensation		2		2		
plans, net	—	—	3	—	—	—
Impact of	(6					
common	4,					
stock share	0		(6	(6		
repurchases	0		5	5		
	0)	—	—	—	—	3)
Balance,	5,					
September 30,	8		1			
2022	1	1	0	(2	8	
	2,	4,	(7	2,	6,	3,
	2	3	.2	5	6	1
	5	7	8	1	2	6
	8	\$ 5	\$ 6	\$ 2)	\$ 3	\$ 9)
	==	==	==	==	==	==
Balance, June	5,					
30, 2023	8		1			
	7	1	0	(2	8	
	4,	4,	(8	6,	6,	5,
	7	6	.6	1	5	7
	6	7	7	2	5	6
	5	\$ 5	\$ 5	\$ 2)	\$ 7	\$ 0)
	==	==	==	==	==	==
Balance,						
December 31,						
2022		5,812,258	\$ 75	\$ 14,510	\$ (7,241)	\$ 104,460
						\$ (26,669)
						\$ 85,135

Net income	2,	2,										
	1	1										
	1	1										
—	—	—	—	—	3	—	3	—	—	—	2,072	—
Net change in fair value of securities												2,072
available-for- sale,		(1				(1						
net of tax	—	—	—	7)	—	—	7)	—	—	—	(313)	—
Net change in fair value of derivative instruments, net		(1				(1						
of tax	—	—	—	8)	—	—	8)	—	—	—	(160)	—
Dividends declared:		(2				(2						
\$ .05 per share	—	—	—	9	—	—	9	—	—	—	(294)	—
Impact of stock-based compensation plans, net		1				1						
	4					4						
—	—	9	—	—	—	9	54,608	—	153	—	(25)	128
Reissuance of treasury stock as compensation	1											
—	6	—	—	—	—	—	—	—				
Balance,	5,											
September 30, 2023	8				1							
	7	1			0	(2	8					
	4,	4,	(8	7,	6,	7,						
	7	8	,9	9	5	4						
	8	7	2	0	7	6	0					
	1	\$ 5	\$ 4	\$ 7)	\$ 6	\$ 0)	\$ 8					
	—	—	—	—	—	—	—					

Impact of adopting current expected credit loss accounting model, net of tax	—	—	—	—	—	(1,811)	—	(1,811)
Balance, March 31, 2023	<u>5,866,866</u>	<u>\$ 75</u>	<u>\$ 14,663</u>	<u>\$ (7,714)</u>	<u>\$ 104,427</u>	<u>\$ (26,694)</u>	<u>\$ 84,757</u>	
Balance, December 31, 2023	5,735,075	\$ 75	\$ 14,972	\$ (6,431)	\$ 109,959	\$ (27,982)	\$ 90,593	
Net income						2,107		2,107
Net change in fair value of securities available-for- sale, net of tax	—	—	—	(73)	—	—	(73)	
Net change in fair value of derivative instruments, net of tax	—	—	—	(117)	—	—	(117)	
Dividends declared: \$.05 per share	—	—	—	—	(289)	—	—	(289)
Impact of stock-based compensation plans, net	<u>52,366</u>	<u>—</u>	<u>150</u>	<u>—</u>	<u>—</u>	<u>(45)</u>	<u>—</u>	<u>105</u>
Balance, March 31, 2024	<u>5,787,441</u>	<u>\$ 75</u>	<u>\$ 15,122</u>	<u>\$ (6,621)</u>	<u>\$ 111,777</u>	<u>\$ (28,027)</u>	<u>\$ 92,326</u>	

The accompanying notes are an integral part of these Interim Condensed Consolidated Statements.

## FIRST US BANCSHARES, INC. AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in Thousands, Except Share and Per Share Data)

For the nine months ended September 30, 2023 and 2022 (Unaudited)

	Accumulated								Total Shareholder s'	
	Common		Other							
	Stock	Shares	Common	Additional	Comprehens	ive	Treasury			
	Outstanding	Stock	Capital		Loss	Earnings	Stock, at Cost			
Balance, December 31, 2021	6,172,378	\$ 75	\$ 14,163	\$ (276)	\$ 98,428	\$ (22,326)	\$ 90,064			
Net income	—	—	—	—	—	4,636	—	—	4,636	
Net change in fair value of securities available-for-sale, net of tax	—	—	—	—	(8,307)	—	—	—	(8,307)	
Net change in fair value of derivative instruments, net of tax	—	—	—	—	1,371	—	—	—	1,371	
Dividends declared: \$.09 per share	—	—	—	—	—	(541)	—	—	(541)	
Impact of stock-based compensation plans, net	43,096	—	361	—	—	—	—	—	361	
Reissuance of treasury stock as compensation	9,184	—	(138)	—	—	—	138	—	—	
Impact of common stock share repurchases	(412,400)	—	—	—	—	—	(4,481)	—	(4,481)	
Balance, September 30, 2022	<u>5,812,258</u>	<u>\$ 75</u>	<u>\$ 14,386</u>	<u>\$ (7,212)</u>	<u>\$ 102,523</u>	<u>\$ (26,669)</u>	<u>\$ 83,103</u>			
Balance, December 31, 2022	5,812,258	\$ 75	\$ 14,510	\$ (7,241)	\$ 104,460	\$ (26,669)	\$ 85,135			
Net income	—	—	—	—	—	6,208	—	—	6,208	

Net change in fair value of securities available-for-sale, net of tax	—	—	—	(1,271)	—	—	(1,271)
Net change in fair value of derivative instruments, net of tax	—	—	—	(395)	—	—	(395)
Dividends declared: \$0.15 per share	—	—	—	—	(881)	—	(881)
Impact of stock-based compensation plans, net	53,141	—	448	—	—	(25)	423
Reissuance of treasury stock as compensation	9,382		(134)			134	—
Impact of adopting current expected credit loss accounting model, net of tax	—	—	—	—	(1,811)	—	(1,811)
Balance, September 30, 2023	<u>5,874,781</u>	<u>\$ 75</u>	<u>\$ 14,824</u>	<u>\$ (8,907)</u>	<u>\$ 107,976</u>	<u>\$ (26,560)</u>	<u>\$ 87,408</u>

The accompanying notes are an integral part of these Interim Condensed Consolidated Statements.

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FIRST US BANCSHARES, INC. AND SUBSIDIARIES  
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in Thousands)

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income	\$ 6,208	\$ 4,636	\$ 2,107	\$ 2,072
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	1,180	1,201	391	412
Provision for credit losses	753	2,781	—	269
Deferred income tax benefit	(566)	(309)		
Deferred income tax expense (benefit)			395	(427)
Proceeds from settlement of derivative contracts	2,166	—	—	2,166
Reclassification of unrealized gains on terminated derivative contracts	(848)	—	(313)	(227)

Stock-based compensation expense	448	361	157	153
Net amortization of securities	40	169		
Net (accretion) amortization of securities			(36)	16
Amortization of intangible assets	159	213	37	55
Net loss (gain) on premises and equipment and other real estate	613	(350)		
Net loss on premises and equipment and other real estate			374	249
Changes in assets and liabilities:				
Increase in accrued interest receivable		(511)	(135)	
Decrease in other assets		333	750	
Increase in accrued interest expense		1,257	495	
Increase in fair value of derivatives not designated as hedging instruments			(75)	—
Increase in cash surrender value of bank owned life insurance			(86)	(73)
(Accrue) decrease in accrued interest receivable			(172)	113
Decrease (increase) in other assets			136	(448)
(Decrease) increase in accrued interest expense			(316)	234
Decrease in other liabilities	(225)	(310)	(1,774)	(979)
Net cash provided by operating activities	11,00			
	7	9,502	825	3,585
Cash flows from investing activities:				
Net decrease (increase) in federal funds sold	625	(38)		
Net decrease in federal funds sold			3,943	1,505
Purchases of investment securities, available-for-sale	(6,75	(39,2		
	6)	56)	(5,791)	—
Proceeds from maturities and prepayments of investment securities, available-for-sale		15,11		
	9,267	1	15,915	3,355
Proceeds from maturities and prepayments of investment securities, held-to-maturity		1,317	121	179
	587			
Net increase in Federal Home Loan Bank stock		(1,13		
	(792)	9)	(293)	(231)
Net increase in loans	(43,5	(45,5		
	33)	90)	(1,820)	(2,610)
Proceeds from the sale of premises and equipment and other real estate	482	2,892	294	128
Purchases of premises and equipment	(979)	(672)	(967)	(139)
Net cash used in investing activities	(41,0	(67,3		
	99)	75)		
Net cash provided by investing activities			11,402	2,187
Cash flows from financing activities:				

Net increase in deposits	57,01			
	3	8,411		
Net (decrease) increase in deposits			(6,923)	27,860
Net increase in short-term borrowings	30,06			
	9,962	0	5,000	4,962
Net share-based compensation transactions	(25)	—	(52)	(25)
Repurchases of common stock		(4,48		
	—	1)		
Dividends paid	(881)	(541)	(289)	(294)
Net cash provided by financing activities	66,06	33,44		
	9	9		
Net increase (decrease) in cash and cash equivalents	35,97	(24,4		
	7	24)		
Net cash (used in) provided by financing activities			(2,264)	32,503
Net increase in cash and cash equivalents			9,963	38,275
Cash and cash equivalents, beginning of period	30,15	61,24		
	2	4	50,279	30,152
Cash and cash equivalents, end of period	66,12	36,82		
	\$ 9	\$ 0	\$ 60,242	\$ 68,427
Supplemental disclosures:				
Cash paid for:				
Interest	\$ 9,364	\$ 2,031	\$ 5,553	\$ 2,292
Income taxes	2,374	1,804	765	1,020
Non-cash transactions:				
Assets acquired in settlement of loans	1,178	656	364	490

The accompanying notes are an integral part of these Interim Condensed Consolidated Statements.

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FIRST US BANCSHARES, INC. AND SUBSIDIARIES  
 NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

1. GENERAL

The accompanying unaudited interim condensed consolidated financial statements include the accounts of First US Bancshares, Inc., a Delaware corporation ("Bancshares") and, together with its subsidiaries (collectively, subsidiary, the "Company"), is a bank holding company formed in 1983 registered under the Bank Holding Company Act of 1956, as amended (the "BHCA"). Bancshares is the parent holding company of operates one wholly owned banking subsidiary, First US Bank, an Alabama banking corporation (the "Bank"). The Company Bancshares and the Bank are both headquartered in Birmingham, Alabama. As of September 30, 2023, Previously, the Bank operated a finance company subsidiary, two wholly owned subsidiaries, Acceptance Loan Company and FUSB Reinsurance, Inc. ("ALC"). During the third quarter, both of 2021, ALC ceased new business development which were legally dissolved in 2023, and permanently closed its 20 branch lending locations in Alabama all remaining assets and Mississippi to the public. Through the third quarter liabilities of 2023, ALC continued to service its remaining portfolio of loans from its headquarters in Mobile, Alabama. Effective October 1, 2023, all of ALC's remaining loans these entities were sold transferred to the Bank prior to December 31, 2023.

The Bank conducts a general commercial banking business and offers banking services such as demand, savings, individual retirement account and time deposits, personal and commercial loans, safe deposit box services and remote deposit capture. The Bank operates and serves its customers through 15 full-service banking offices located in an intercompany transaction.

Due Birmingham, Butler, Calera, Centreville, Gilbertown, Grove Hill, Harpersville, Jackson, Thomasville, Tuscaloosa and Woodstock, Alabama; Knoxville and Powell, Tennessee; and Rose Hill, Virginia; as well as loan production offices in Mobile, Alabama and the Chattanooga, Tennessee area. The Bank provides a wide range of commercial banking services to small- and medium-sized businesses, property managers, business executives, professionals and other individuals. The Bank also performs indirect lending through third-party retailers and currently conducts this transaction, management determined that ALC was no longer a separate lending in 17 states, including Alabama, Arkansas, Florida, Georgia, Indiana, Iowa, Kansas, Kentucky, Mississippi, Missouri, Nebraska, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia. The Bank is the Company's only reportable operating segment. The Bank intends segment upon which management makes decisions regarding how to manage the remaining portfolio through final resolution. All significant intercompany transactions allocate resources and accounts have been eliminated. assess performance.

The unaudited interim condensed consolidated financial statements, in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company's consolidated financial position, results of operations and cash flows for the periods presented. Such adjustments are of a normal, recurring nature, except for the adoption of Accounting Standards Codification ("ASC") 326, *Measurement of Credit Losses on Financial Instruments*, as discussed below. The results of operations for any interim period are not necessarily indicative of results expected for the fiscal year ending December 31, 2023 December 31, 2024. While certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), management believes that the disclosures herein are adequate to make the information presented not misleading. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2022 December 31, 2023 (the "Company's 2022 2023 Form 10-K").

## 2. BASIS OF PRESENTATION

### Reclassification

Certain amounts in the prior period consolidated financial statements and the notes to the prior period consolidated financial statements have been reclassified to conform to the 2023 2024 presentation. These reclassifications had no effect on the Company's results of operations, financial position or net cash flow.

## Summary of Significant Accounting Policies

Certain significant accounting policies followed by the Company are set forth in Note 2, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements in the Company's 2022 2023 Form 10-K.

### Adoption of ASC 326

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as subsequently updated for certain clarifications, targeted relief and codification improvements. ASC 326 replaces the previous "incurred loss" model for measuring credit losses, which required allowances for current known and inherent losses within the loan portfolio, with an "expected loss" model. The newly adopted current expected credit loss ("CECL") model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance-sheet credit exposures based on historical experience, current conditions, and reasonable and supportable forecasts. ASC 326 also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASC 326 includes certain changes to the accounting for available-for-sale securities including the requirement to present credit losses as an allowance rather than as a direct write-down.

The Company adopted ASC 326 using the modified retrospective method for financial assets measured at amortized cost and off-balance-sheet credit exposures. Upon adoption, the Company recognized an increase in the allowance for credit losses (including both loans and unfunded lending commitments) of \$2.4 million, which included an after-tax cumulative effect decrease to retained earnings totaling \$1.8 million. Operating results for periods after January 1, 2023 are presented in accordance with ASC 326 while prior period amounts continue to be reported in accordance with previously applicable standards and the accounting policies described in Note 2 of the Company's 2022 Form 10-K. In connection with the adoption of ASC 326, the Company revised certain accounting policies and implemented certain accounting policy elections. The revised accounting policies are described below.

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### Loans and Leases Held for Investment

Loans and leases held for investment ("loans") represent financial instruments that the Company has the intent and the ability to hold for the foreseeable future or until maturity or payoff. Loans are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, fair value hedge accounting adjustments, as well as deferred loan fees and costs. Accrued interest receivable on loans and leases is reported separately on the Company's consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

At the time a loan is 90 days delinquent, it is placed on nonaccrual status unless it is well-secured and in process of collection. Interest income is discontinued on all loans on nonaccrual status. Past-due status is based on the contractual terms of the loan. In all cases, loans are moved to nonaccrual status, or charged off at an earlier date, if collection of principal and interest is considered doubtful.

All interest accrued but not received on loans on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery methods, until qualifying for return to accrual. Under the cash-basis method, interest income is recorded when the payment is received in cash. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

#### *Allowance for Credit Losses – Loans and Leases*

The allowance for credit losses is a contra-asset valuation account that is deducted from the amortized cost basis of the loans to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. The allowance for credit losses on loans and leases is adjusted through the provision for (recovery of) credit losses.

Management estimates the allowance balance by using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for estimation of expected credit losses. Adjustments to historical loss information are made for differences in loan-specific risk characteristics such as changes in economic and business conditions, underwriting standards, portfolio mix, and delinquency level. Considerations related to environmental conditions include reasonable and supportable current and forecasted data related to economic factors such as inflation, unemployment levels, and interest rates.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty as of the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs as appropriate. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company, or management has a reasonable expectation at the reporting date that a loan modification will be made to a borrower experiencing financial difficulty.

Additional information related to the factors considered in evaluating credit losses on loans and leases is included in Note 4.

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

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The following categories of off-balance sheet credit exposures have been identified: unfunded loan commitments, standby letters of credit, and financial guarantees (collectively, "unfunded lending commitments"). The allowance for credit losses on unfunded lending commitments is adjusted through the provision for (recovery of) credit losses. The estimate may include consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded, as well as reasonable practical expeditors or industry practices to assist in the evaluation of estimated funding amounts.

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Additional information related to the factors considered in evaluating credit losses on unfunded lending commitments is included in Note 4.

#### *Allowance for Credit Losses – Investment Securities Held-to-Maturity*

Expected credit losses on held-to-maturity debt securities are measured on a collective basis by major security type. Accrued interest receivable on held-to-maturity securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The allowance for credit losses on investment securities held-to-maturity is adjusted through the provision for (recovery of) credit losses. Additional information related to the factors considered in evaluating credit losses in the held-to-maturity investment portfolio is included in Note 3.

#### *Allowance for Credit Losses – Investment Securities Available-for-Sale*

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 cost 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. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes in the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded in the provision for (recovery of) credit losses. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is excluded from the estimate of credit losses.

Additional information related to the factors considered in evaluating credit losses in the available-for-sale investment portfolio is included in Note 3.

#### **Net Income Per Share**

Basic net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding ("basic shares"). Included in basic shares are stock equivalent shares that have been accrued as of the balance sheet date as deferred compensation for members of Bancshares' Board of Directors under the Non-Employee Directors' Deferred Compensation Plan (as defined below and discussed further in Note 9). Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding, adjusted for the effect of potentially dilutive stock awards outstanding during the period ("dilutive shares"). The dilutive shares consist of unexercised nonqualified stock option grants issued to employees and members of Bancshares' Board of Directors pursuant to the Company's Incentive Plan (as defined below and discussed further in Note 10).

The following table reflects the weighted average shares used to calculate basic and diluted net income per share for the periods presented.

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Weighted average shares outstanding	5,874	5,839	5,858	6,016		
	,769	,658	,812	,770	5,760,962	5,839,562
Weighted average director stock equivalent shares	109,7	111,6	113,1	114,8		
	93	08	42	53	113,519	114,783
Basic shares	5,984	5,951	5,971	6,131		
	,562	,266	,954	,623	5,874,481	5,954,345
Dilutive shares	419,6	419,6	419,6	419,6		
	50	50	50	50	402,650	419,650
Diluted shares	6,404	6,370	6,391	6,551		
	,212	,916	,604	,273	6,277,131	6,373,995

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	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
(Dollars in Thousands, Except Per Share Data)						
Net income	\$ 2,113	\$ 1,860	\$ 6,208	\$ 4,636	\$ 2,107	\$ 2,072
Basic net income per share	\$ 0.35	\$ 0.31	\$ 1.04	\$ 0.76	\$ 0.36	\$ 0.35
Diluted net income per share	\$ 0.33	\$ 0.29	\$ 0.97	\$ 0.71	\$ 0.34	\$ 0.33

### Comprehensive Income

Comprehensive income consists of net income, as well as unrealized holding gains and losses that arise during the period associated with the Company's available-for-sale securities portfolio and the effective portion of cash flow hedge derivatives. In the calculation of comprehensive income, reclassification adjustments are made for gains or losses realized in the statement of operations associated with the sale of available-for-sale securities or settlement of derivative contracts.

## Recently Adopted Accounting Guidance Standards Not Yet Adopted

### Reference Rate Reform

ASU 2020-04 and ASU 2021-01, "Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These ASUs provide temporary relief, in the form of optional expedites and exceptions, for applying GAAP to modifications of contracts, hedging relationships and other transactions affected by reference rate (e.g. LIBOR) reforms. Historically, the Company utilized LIBOR, among other indexes, as a reference rate for underwriting certain variable rate loans and interest rate hedging instruments. Since the issuance of this guidance, cessation of U.S. dollar LIBOR was extended to June 30, 2023. Accordingly, in December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which deferred the sunset date of ASC Topic 848 from December 31, 2022 to December 31, 2024. The amendments in this update provide optional expedites designed to provide relief from accounting analysis and the impacts that may otherwise be required for modifications to agreements necessitated by reference rate reform. The optional expedites provided by the update include guidance related to modifications of contracts within the scope of ASC Topics 310, *Receivables*, and 470, *Debt*, that indicates the modifications should be accounted for by prospectively adjusting the effective interest rate. As of September 30, 2023, the Company's contracts referencing LIBOR were limited to certain variable-rate loan agreements for which the pricing reset date has not yet occurred. Management has implemented a process to convert the agreements to another reference rate at the next applicable pricing reset date. Due to the prospective nature of the implementation of the revised guidance, the adoption did not have a material impact on the Company's consolidated financial statements.

### Portfolio Layer Hedging Method

ASU 2022-01, "Fair Value Hedging - Portfolio Layer Method - Derivatives and Hedging (Topic 815)." In March 2022, the FASB issued ASU 2022-01. The amendments in this standard expand the current last-of-layer method of hedge accounting to allow multiple hedged layers of a single closed portfolio. The Company adopted ASU 2022-01 on January 1, 2023. Due to the prospective nature of the implementation of this revised guidance, the adoption of this standard update did not have a material impact on the Company's consolidated financial statements.

### Intangibles and Goodwill

ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Issued in January 2017, ASU 2017-04 simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under the amendments in ASU 2017-04, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. As originally issued, ASU 2017-04 was effective prospectively for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. On October 16, 2019, the FASB approved a delay in the implementation of ASU 2017-04 by three years for smaller reporting companies, including the Company. The ASU became effective for the Company on January 1, 2023. The adoption of this standard update did not have a material effect on the Company's consolidated financial statements.

The following table provides a description of recent accounting standards that have not yet been adopted as of March 31, 2024.

**Current Expected Credit Loss Accounting Guidance**

Standard	Description	Required Date of	Effect on Financial
		Adoption	Statements or other significant matters
ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative	This Update incorporates into the Codification 14 of the 27 disclosures referred by the SEC in Release No. 33-10532, Disclosure Update and Simplification. This update clarifies and improves the disclosure and presentation requirements of a variety of Topics in the Codification to align with the SEC's regulations.	The date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective.	The adoption of this guidance is not likely to have a material impact. Management will continue to evaluate through date of adoption.
ASU 2023-09, Income Taxes (Topic 740) Improvements to Income Tax Disclosures	The ASU improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures.	January 1, 2025	The adoption of this guidance is not likely to have a material impact. Management will continue to evaluate through date of adoption.

ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Issued in June 2016, ASU 2016-13 removed the thresholds that entities previously applied to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables and held-to-maturity debt securities. Known as the Current Expected Credit Loss (CECL) model, the revised guidance removed all recognition thresholds under previously used incurred loss models and required entities to recognize an allowance for lifetime expected credit losses. The standard also added disclosure requirements intended to enable users of the financial statements to understand credit risk in the portfolio and how management monitors credit quality, management's estimate of expected credit losses, and changes in the estimate of credit losses during the period. In addition, the standard made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell. As originally issued, ASU 2016-13 was effective for financial statements issued for fiscal years and for interim periods within those fiscal years beginning after December 15, 2019, with institutions required to apply the changes through a cumulative-effect adjustment to their retained earnings balance as of the beginning of the first reporting period in which the guidance is effective. On October 16, 2019, the FASB approved a delay in the implementation of ASU 2016-13 by three years for smaller reporting companies, including the Company. The ASU became effective for the Company on January 1, 2023, and the Company recorded a cumulative-effect adjustment that increased the allowance for credit losses by approximately \$2.1 million. In addition, the Company recorded a cumulative-effect adjustment that increased other liabilities by \$0.3 million as an allowance for credit losses for unfunded commitments. In accordance with transition accounting

guidance, the transition adjustments were recorded directly to retained earnings (net of tax) during the first quarter of 2023 and did not impact then-current period earnings.

**ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings ("TDRs") and Vintage Disclosures."**

Issued in March 2022, ASU 2022-02 sought to improve the decision usefulness of information provided to investors concerning certain loan refinancings, restructurings and write-offs. The ASU eliminated the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL accounting model and enhanced the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The Company adopted the amendments of ASU 2022-02 on January 1, 2023, concurrent with the adoption of the CECL accounting model. The amendments of ASU 2022-02 include only changes to certain financial statement disclosures; and, therefore, adoption of ASU 2022-02 did not have a material impact on the Company's consolidated financial statements. [10](#)

### 3. INVESTMENT SECURITIES

Details of investment securities available-for-sale and held-to-maturity as of [September 30, 2023](#) [March 31, 2024](#) and [December 31, 2022](#) [December 31, 2023](#) were as follows:

	Available-for-Sale				Available-for-Sale			
	September 30, 2023				March 31, 2024			
	Amortized	Unrealized	Unrealized	Fair	Amortized	Unrealized	Unrealized	Fair
	Losses				Cost			
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
(Dollars in Thousands)								
Mortgage-backed securities:								
Residential	41,0		(4,07	37,0				
	\$ 71	\$ —	\$ 1)	\$ 00	\$ 45,179	\$ 460	\$ (3,086)	\$ 42,553
Commercial	10,0			9,50				
	20	1	(521)	0	14,610	3	(334)	14,279
Obligations of U.S. government-sponsored agencies	11,8			10,9				
	51	—	(919)	32	11,645	84	(720)	11,009
Obligations of states and political subdivisions	1,63			1,54				
	3	—	(90)	3	1,610	—	(65)	1,545
Corporate notes	17,7		(3,09	14,6				
	72	—	1)	81	17,752	—	(2,909)	14,843

U.S. Treasury securities	56,9	(4,09	52,8					
	88	—	3)	95	44,009	—	(2,858)	41,151
Total	139,	(12,7	126,					
	<u>\$ 335</u>	<u>\$ 1</u>	<u>\$ 85)</u>	<u>\$ 551</u>	<u>\$ 134,805</u>	<u>\$ 547</u>	<u>\$ (9,972)</u>	<u>\$ 125,380</u>

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	Held-to-Maturity			
	March 31, 2024			
	Amortized Cost	Gross Gains	Gross Losses	Estimated Fair Value
(Dollars in Thousands)				
Mortgage-backed securities:				
Commercial	\$ 468	\$ —	\$ (20)	\$ 448
Obligations of U.S. government-sponsored agencies	462	—	(36)	426
Obligations of states and political subdivisions	53	—	(6)	47
Total	<u>\$ 983</u>	<u>\$ —</u>	<u>\$ (62)</u>	<u>\$ 921</u>

	Available-for-Sale			
	December 31, 2023			
	Amortized Cost	Gross Gains	Gross Losses	Estimated Fair Value
(Dollars in Thousands)				
Mortgage-backed securities:				
Residential	\$ 47,221	\$ 580	\$ (3,073)	\$ 44,728
Commercial	9,446	—	(406)	9,040
Obligations of U.S. government-sponsored agencies	11,849	158	(727)	11,280
Obligations of states and political subdivisions	1,621	—	(63)	1,558
Corporate notes	17,757	—	(2,800)	14,957
U.S. Treasury securities	56,999	—	(2,997)	54,002
Total	<u>\$ 144,893</u>	<u>\$ 738</u>	<u>\$ (10,066)</u>	<u>\$ 135,565</u>

	Held-to-Maturity			
	September 30, 2023			
	Gross	Gross	Gross	Estimated
(Dollars in Thousands)				

	Amortized Cost	Unrealized		Unrealized		Fair	
		Gains	Losses	Gains	Losses	Value	
		(Dollars in Thousands)					
Mortgage-backed securities:							
Commercial	\$ 704	\$ —	\$ (30)	\$ 674			
Obligations of U.S. government-sponsored agencies	502	—	(49)	453			
Obligations of states and political subdivisions	66	—	(10)	56			
Total	<u>\$ 1,272</u>	<u>\$ —</u>	<u>\$ (89)</u>	<u>\$ 1,183</u>			

	Available-for-Sale				December 31, 2022	
	Amortized Cost	Gross		Gross		Estimated
		Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses	Fair Value
Mortgage-backed securities:						

Residential	\$ 47,659	\$ 2	\$ (3,704)	\$ 43,957
Commercial	12,169	4	(480)	11,693
Obligations of U.S. government-sponsored agencies	5,116	—	(846)	4,270
Obligations of states and political subdivisions	2,166	—	(94)	2,072
Corporate notes	17,817	2	(1,898)	15,921
U.S. Treasury securities	56,956	—	(4,074)	52,882
Total	<u>\$ 141,883</u>	<u>\$ 8</u>	<u>\$ (11,096)</u>	<u>\$ 130,795</u>

	Held-to-Maturity				Held-to-Maturity			
	December 31, 2022				December 31, 2023			
	Gross	Gross	Gross	Gross	Amortized	Unrealized	Unrealized	Estimated
	Amortized	Unrealized	Lized	Estimat	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	s	Value	Cost	Gains	Losses	Value
	(Dollars in Thousands)				(Dollars in Thousands)			
Mortgage-backed securities:								
Commercial	1,16	—	1,12					
	\$ 7	\$ —	\$ (41)	\$ 6	\$ 575	\$ —	\$ (22)	\$ 553
Obligations of U.S. government-sponsored agencies	610	—	(40)	570	471	—	(34)	437
Obligations of states and political subdivisions	85	—	(12)	73	58	—	(7)	51

Total	1,86	1,76	
	\$ 2	\$ (93)	\$ 1,104

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The scheduled maturities of investment securities available-for-sale and held-to-maturity as of **September 30, 2023** **March 31, 2024** are presented in the following table:

	Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity	
	Estimated		Estimated		Amortized		Estimated	
	Amortized	Fair Value	Amortized	Fair Value	Cost	Fair Value	Amortized	Fair Value
	Cost	Value	Cost	Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in Thousands)				(Dollars in Thousands)			
Maturing within one year	\$ 12,988	\$ 12,783	\$ —	\$ —	\$ 3,989	\$ 3,878	\$ —	\$ —
Maturing after one to five years	53,676	49,249	324	308	50,154	46,853	184	176
Maturing after five to ten years	60,121	52,780	738	686	54,852	48,970	618	579
Maturing after ten years	12,550	11,739	210	189	25,810	25,679	181	166
Total	139,33	126,55			134,805	125,380	983	921
	\$ 5	\$ 1	\$ 1,272	\$ 1,183				

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities generally mature earlier than their weighted-average contractual maturities because of principal prepayments.

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The following tables reflect gross unrealized losses and fair value for securities for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2023.

Available-for-Sale
September 30, 2023

	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in Thousands)			
Mortgage-backed securities:				
Residential	\$ 105	\$ (5)	\$ 36,860	\$ (4,066)
Commercial	1,532	(13)	7,934	(508)
Obligations of U.S. government-sponsored agencies	—	—	4,176	(919)
Obligations of states and political subdivisions	—	—	1,543	(90)
Corporate notes	802	(198)	13,879	(2,893)
U.S. Treasury securities	—	—	52,895	(4,093)
Total	\$ 2,439	\$ (216)	\$ 117,287	\$ (12,569)
Held-to-Maturity				
September 30, 2023				
	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in Thousands)			
Mortgage-backed securities:				
Commercial	\$ —	\$ —	\$ 674	\$ (30)
Obligations of U.S. government-sponsored agencies	—	—	453	(49)
Obligations of states and political subdivisions	—	—	56	(10)
Total	\$ —	\$ —	\$ 1,183	\$ (89)

The following tables reflect gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2022 March 31, 2024 and December 31, 2023. No determination was made concerning the need for an allowance for credit losses as this table reflects information prior to the adoption of ASC 326.

Available-for-Sale				Available-for-Sale			
December 31, 2022				March 31, 2024			
Less than 12 Months		12 Months or More		Less than 12 Months		12 Months or More	
Months		Unrealized	Unrealized	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		Fair Value	Losses	Value	Losses	Value	Losses
		(Dollars in Thousands)					(Dollars in Thousands)

Mortgage-backed securities:													
Residential	19,8		23,9	(2,75									
	\$ 76	\$ (952)	\$ 03	\$ 2		\$ 190	\$		(5)	\$ 33,610	\$		(3,081)
Commercial	9,72		1,24										
	0	(357)	7	(123)		5,780		(12)		7,883			(322)
Obligations of U.S. government-sponsored agencies			4,27										
	—	—	0	(846)		—		—		4,372			(720)
Obligations of states and political subdivisions	1,55												
	9	(41)	513	(53)		—		—		1,545			(65)
Corporate notes	6,84		8,07	(1,00									
	5	(898)	5	0)		—		—		14,843			(2,909)
U.S. Treasury securities	21,2		31,6	(3,37									
	40	(698)	42	6)		—		—		41,151			(2,858)
Total	59,2	(2,94	69,6	(8,15									
	\$ 40	\$ 6)	\$ 50	\$ 0)		\$ 5,970	\$	(17)	\$ 103,404	\$			(9,955)

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	Held-to-Maturity			
	March 31, 2024			
	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in Thousands)				
Mortgage-backed securities:				
Commercial	\$ —	\$ —	\$ 448	\$ (20)
Obligations of U.S. government-sponsored agencies	\$ —	\$ —	\$ 426	\$ (36)
Obligations of states and political subdivisions	\$ —	\$ —	\$ 47	\$ (6)
Total	\$ —	\$ —	\$ 921	\$ (62)

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Held-to-Maturity			
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December 31, 2022							
	Less than 12 Months		12 Months or More				
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
	(Dollars in Thousands)						
Mortgage-backed securities:							
Commercial	\$ 1,126	\$ (41)	\$ —	\$ —			
Obligations of U.S. government-sponsored agencies	214	(7)	356	(33)			
Obligations of states and political subdivisions	73	(12)	—	—			
Total	<u>\$ 1,413</u>	<u>\$ (60)</u>	<u>\$ 356</u>	<u>\$ (33)</u>			
Available-for-Sale							
December 31, 2023							
	Less than 12 Months		12 Months or More				
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
	(Dollars in Thousands)						
Mortgage-backed securities:							
Residential	\$ 94	\$ (1)	\$ 35,584	\$ (3,072)			
Commercial	600	(5)	8,408	(401)			
Obligations of U.S. government-sponsored agencies	—	—	4,367	(727)			
Obligations of states and political subdivisions	—	—	1,558	(63)			
Corporate notes	771	(229)	14,186	(2,571)			
U.S. Treasury securities	—	—	54,002	(2,997)			
Total	<u>\$ 1,465</u>	<u>\$ (235)</u>	<u>\$ 118,105</u>	<u>\$ (9,831)</u>			
Held-to-Maturity							
December 31, 2023							
	Less than 12 Months		12 Months or More				
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
	(Dollars in Thousands)						
Mortgage-backed securities:							
Commercial	\$ —	\$ —	\$ 553	\$ (22)			
Obligations of U.S. government-sponsored agencies	—	—	437	(34)			
Obligations of states and political subdivisions	—	—	51	(7)			
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,041</u>	<u>\$ (63)</u>			

#### Available-for-Sale Considerations

For any securities classified as available-for-sale that are in an unrealized loss position as of the balance sheet date, the Company assesses whether or not it intends to sell the security, or more-likely-than-not will be required to sell the security, before recovery of its amortized cost basis which would require a write-down to fair value through net income.

As of **September 30, 2023** **March 31, 2024**, **109** **102** available-for-sale debt securities had been in a loss position for more than 12 months, and **six** **five** available-for-sale debt securities had been in a loss position for less than 12 months. As of **December 31, 2022** **December 31, 2023**, **37** **108** available-for-sale debt securities had been in a loss position for more than 12 months, and **75** **three** available-for-sale debt securities had been in a loss position for less than 12 months. The increase in the number of debt securities in a loss position for greater than 12 months was due to the sustained higher interest rate environment during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**. As of **September 30, 2023** **March 31, 2024**, the Company had the current intent and ability to retain its investments for a period of time that management believes to be sufficient to allow for any anticipated recovery of fair value. As of **September 30, 2023** **March 31, 2024** and **December 31, 2023**, the losses for all available-for-sale securities were considered to be a direct result of the effect that the prevailing interest rate environment had on the value of debt securities and were not related to the creditworthiness of the issuers. Accordingly, no allowance for credit losses was considered necessary related to available-for-sale securities as of **September 30, 2023** **March 31, 2024** or **December 31, 2023**.

#### *Held-to-Maturity Considerations*

Effective January 1, 2023, the Company adopted the CECL accounting model to evaluate credit losses in the held-to-maturity investment portfolio. Each quarter, management evaluates the portfolio on a collective basis by major security type to determine whether an allowance for credit losses is needed. Qualitative factors are used in the Company's credit loss assessments, including current and forecasted economic conditions, the characteristics of the debt issuer, and the historic ability of the issuer to make contractual principal and interest payments. Specifically, with regard to **mortgage-backed securities or obligations of U.S. government sponsored agencies thereof**, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are either backed by the full faith and credit of the U.S. government or the agency. With regard to **obligations of states and political subdivisions**, management considers issuer bond ratings, historical loss rates for given bond ratings, and whether the issuers continue to make timely principal and interest payments under contractual terms of the securities. Based on these evaluations, no allowance for credit losses was recorded by the Company for the held-to-maturity investment portfolio **upon adoption of the CECL accounting model or as of September 30, 2023** **March 31, 2024** or **December 31, 2023**.

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#### *Pledged Securities*

Investment securities with a carrying value of **\$42.3** **\$47.2** million and **\$54.7** **\$41.4** million as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively, were pledged to secure public deposits and for other purposes.

#### 4. LOANS AND **ALLOWANCE FOR CREDIT LOSSES** **LEASES**

#### **Portfolio Segments**

The Company has divided the loan portfolio into the following portfolio segments based on risk characteristics:

*Construction, land development and other land loans* – Commercial construction, land and land development loans include loans for the development of residential housing projects, loans for the development of commercial and industrial use property, loans for the purchase and improvement of raw land and loans primarily for agricultural production that are secured by farmland. These loans are secured in whole or in part by the underlying real estate collateral and are generally guaranteed by the principals of the borrowing entity.

*Secured by 1-4 family residential properties* – These loans include conventional mortgage loans on one-to-four family residential properties. These properties may serve as the borrower's primary residence, vacation home or investment property. Also included in this portfolio are home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their home.

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*Secured by multi-family residential properties* – This portfolio segment includes mortgage loans secured by apartment buildings.

*Secured by non-farm, non-residential properties* – This portfolio segment includes real estate loans secured by commercial and industrial properties, office or mixed-use facilities, strip shopping centers or other commercial property. These loans are generally guaranteed by the principals of the borrowing entity.

*Commercial and industrial loans and leases* – This portfolio segment includes loans and leases to commercial customers for use in the normal course of business. These credits may be loans, lines of credit and leases to financially strong borrowers, secured by inventories, equipment or receivables, and are generally guaranteed by the principals of the borrowing entity.

*Direct consumer* – This portfolio segment includes a variety of secured and unsecured personal loans, including automobile loans, loans for household and personal purposes and all other direct consumer installment loans.

*Branch retail* – This portfolio segment includes loans secured by collateral purchased by consumers at retail stores with whom **ALC** the Company previously had an established relationship **through its branch network** to provide financing for the retail products sold if applicable underwriting standards were met. The collateral securing these loans generally includes personal property items such as furniture, ATVs and home appliances. **Loans in this category are no longer being funded, and therefore, the portfolio balance will continue to decrease.**

*Indirect consumer* – This portfolio segment includes loans secured by collateral purchased by consumers at retail stores with whom the Company has an established relationship to provide financing for the retail products sold if applicable underwriting standards are met. The collateral securing these loans generally includes recreational vehicles, campers, boats, horse trailers and cargo trailers.

As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the composition of the loan portfolio by portfolio segment was as follows:

	<b>September 30, December 31,</b>		<b>March 31, 2024</b>	<b>December 31, 2023</b>
	<b>2023</b>	<b>2022</b>		
Real estate loans:				

Construction, land development and other land loans	\$ 90,051	\$ 53,914	\$ 102,282	\$ 88,140
Secured by 1-4 family residential properties	83,876	87,995	74,361	76,200
Secured by multi-family residential properties	56,506	67,852	62,145	62,397
Secured by non-farm, non-residential properties	199,116	200,156	212,465	213,586
Commercial and industrial loans and leases (1)	59,369	73,546	57,112	60,515
Consumer loans:				
Direct	6,544	9,851	5,590	5,938
Branch retail	9,648	13,992	7,794	8,670
Indirect	310,190	266,567	301,192	306,345
Total loans	815,300	773,873	822,941	821,791
Allowance for credit losses	11,380	9,422		
Allowance for credit losses on loans and leases			10,436	10,507
Net loans	\$ 803,920	\$ 764,451	\$ 812,505	\$ 811,284

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(1) Includes equipment financing leases, which totaled \$10.2 12.5 million and \$10.3 12.6 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

The Company makes commercial, real estate and installment loans to its customers. Although the Company has a diversified loan portfolio, 52.7 54.8% and 53.0 53.6% of the portfolio was concentrated in loans secured by real estate as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Loans with a carrying value of \$100.8 97.3 million and \$100.2 98.6 million were pledged as collateral to secure Federal Home Loan Bank ("FHLB") borrowings as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. In addition, loans with a carrying value of \$282.6 288.4 million and \$294.4 million were pledged to secure borrowings with the Federal Reserve Bank ("FRB") as of September 30, 2023. No loans were pledged to the FRB as of December 31, 2022. Measures were

undertaken by management in 2023 to pledge loans to the FRB in order to provide additional borrowing capacity to the Company in response to heightened liquidity concerns in the banking industry.

March 31, 2024 and December 31, 2023, respectively.

### Related Party Loans

In the ordinary course of business, the Bank makes loans to certain officers and directors of the Company, including companies with which they are associated. These loans are made on the same terms as those prevailing for comparable transactions with unrelated parties. Management believes that such loans do not represent more than a normal risk of collectability, nor do they present other unfavorable features. The aggregate balances of such related party loans and commitments were \$1.4 million and \$0.2 million as of September 30, 2023 both March 31, 2024 and December 31, 2022, respectively. December 31, 2023. During the nine three months ended September 30, 2023 March 31, 2024, there was one were no new loan loans to these parties and no repayments made. During the year ended December 31, 2022 December 31, 2023, there were new loans of \$no 1.3 new loans million to these parties, and no repayments made by active related parties totaled \$0.1 million. parties.

### Allowances for Credit Losses

Effective January 1, 2023, the Company adopted the CECL model to account for credit losses on financial instruments, including loans and leases held for investment, as well as off-balance sheet credit exposures including unfunded lending commitments. In accordance with the CECL accounting guidance, the Company recorded a cumulative-effect adjustment totaling \$2.4 million, of which \$1.8 million (net of tax) was recorded through retained earnings upon adoption of the model. This amount included estimates for credit losses associated with both loan and lease receivables, as well as unfunded lending commitments. Prospectively, following the date of adoption, all adjustments for credit losses are required to be recorded as a provision for (recovery of) credit losses in the Company's consolidated statement of operations.

#### Allowance for Credit Losses on Loans and Leases

The Company records the allowance for credit losses on loans and leases as a contra-asset valuation account that is deducted from the amortized cost basis of loans and leases held for investment. Loans are charged off against the allowance when management believes that the uncollectability of a loan balance is confirmed. Recoveries of previously charged off loans are also recorded to the allowance when collected. As of each quarter-end date, the Company evaluates the appropriateness of the allowance for credit losses on loans and leases and adjusts the allowance through the provision for (recovery of) credit losses.

Determining the appropriateness of the allowance for credit losses on loans and leases is complex and requires judgment by management about the effects of matters that are inherently uncertain. In future periods, evaluations of the overall loan portfolio, or particular segments of the portfolio, in the context of factors and forecasts then prevailing, may result in significant changes in the allowance and credit loss expense in those future periods. The level of the allowance is influenced by loan and lease volumes and mix, historical credit loss experience, average estimated remaining life of portfolio segments, asset quality characteristics, delinquency status, and other conditions including reasonable and supportable forecasts of economic conditions and qualitative adjustment factors based on management's understanding of various attributes that could impact life-of-loan losses as of the balance sheet date. The methodology to estimate losses includes two basic components: (1) an asset-specific component for individual loans that do not share similar risk characteristics with other loans, and (2) a pooled component for estimated expected credit losses for loans that share similar risk characteristics.

Loans that do not share risk characteristics with other loans are evaluated on an individual basis. The process for determining whether a loan should be evaluated on an individual basis begins with a determination of credit rating. All loans graded by management as substandard or worse with a total commitment of \$0.5 million or more are evaluated on an individual basis. At management's discretion, other loans may be evaluated, including loans less than \$0.5 million, if management determines that the loans exhibit unique risk characteristics. For loans individually evaluated, the allowance is based primarily on the fair value of the underlying collateral, less any estimated costs to sell, as applicable, utilizing independent third-party appraisals, and assessment of borrower guarantees. The fair value is compared to the amortized cost basis of the loan to determine if an allowance for credit losses should be recognized.

For estimating the component of the allowance for credit losses that share similar risk characteristics, loans are segregated into pooled loan segments or categories that share risk characteristics. Loans are designated into pooled segments categories based on product types, business lines, collateral, and other risk characteristics. For all pooled loan categories, the Company uses a loss-rate methodology to calculate estimated life-of-loan and lease credit losses. This methodology focuses on historical credit loss rates applied over the estimated weighted average remaining life of each loan segment, pool, adjusted by qualitative factors, to estimate life-of-loan losses for each pooled segment, pool. The qualitative factors utilized include, among others, reasonable and supportable forecasts of economic data, including inflation and unemployment levels, as well as interest rates.

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The Company's cumulative-effect adjustment upon the adoption of CECL increased the Company's allowance for credit losses on loans and leases by \$2.1 million. Subsequent to January 1, 2023, the Company recorded additional increases to the allowance for credit losses on loans and leases totaling \$0.5 million which were included in the provision for credit losses in the Company's consolidated statement of operations during the nine months ended September 30, 2023.

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The following tables present changes in the allowance for credit losses on loans and leases during the nine months ended September 30, 2023 and 2022:

As of and for the Nine Months Ended September 30, 2023									
Construction, Land Development, and Other									
		Real Estate		Non-Residential		Commercial		Direct Consumer Branch	
Development	Land	Real Estate	Residential	Commercial	Industrial	Consumer	Branch	Consumer	Total
and	Develop	Estate	Multi-Family	Residential	Industrial	Consumer	Branch	Consumer	
Other	Family	Family	Family	Industrial	Industrial	Retail	Retail	Industrial	Total
(Dollars in Thousands)									
<b>Allowance for credit losses:</b>									

Beginning balance	\$ 517	\$ 832	\$ 646	\$ 1,970	\$ 919	\$ 866	\$ 518	\$ 3,154	\$ 9,422
Impact of adopting CECL accounting guidance	(94)	(39)	(85)	(147)	(20)	47	628	1,833	2,123
Charge-offs	—	(96)	—	—	—	(521)	(359)	(500)	(1,476)
Recoveries	—	39	—	—	—	499	195	40	773
Provision for (recovery of) credit losses	157	18	(156)	(201)	(369)	(404)	(147)	1,640	538
Ending balance	\$ 580	\$ 754	\$ 405	\$ 1,622	\$ 530	\$ 487	\$ 835	\$ 6,167	\$ 11,380

As of and for the Nine Months Ended September 30, 2022

Construction, Land	Development, Real Estate	Real Estate	Non-Farm Residential	Commercial and Industrial	Direct Consumer	Branch	Indirect Consumer	Total
and 1-4 Family	Multi-Family	Residential	Industrial	Industrial	Retail	Retail	Industrial	Total

(Dollars in Thousands)

**Allowance for loan and lease losses:**

Beginning balance	\$ 628	\$ 690	\$ 437	\$ 1,958	\$ 860	\$ 1,004	\$ 304	\$ 2,439	\$ 8,320
Charge-offs	—	(10)	—	—	—	(1,604)	(423)	(238)	(2,275)
Recoveries	2	23	—	4	—	387	97	34	547
Provision for (recovery of) loan and lease losses	(246)	89	210	30	244	1,161	445	848	2,781
Ending balance	\$ 384	\$ 792	\$ 647	\$ 1,992	\$ 1,104	\$ 948	\$ 423	\$ 3,083	\$ 9,373

The following table details the allowance for loan and lease losses and recorded investment in loans by loan classification and by impairment evaluation as of December 31, 2022, as determined in accordance with ASC 310, *Receivables*, prior to the adoption of ASC 326:

As of the Year Ended December 31, 2022									
Construction, Land	Development, Real Estate	Real Estate	Farm	Commercial and Industrial	Direct Consumer	Branch	Indirect Consumer	Total	
and 1-4 Family	Multi-Family	Residential	Industrial	Industrial	Retail	Retail	Industrial	Total	

(Dollars in Thousands)

**Ending balance of allowance attributable to loans:**

Individually evaluated for impairment	\$ —	\$ 7	\$ —	\$ —	\$ 252	\$ —	\$ —	\$ —	\$ 259
Collectively evaluated for impairment	517	825	646	1,970	667	886	518	3,154	\$ 9,183
Total allowance for loan and lease losses	\$ 517	\$ 832	\$ 646	\$ 1,970	\$ 919	\$ 886	\$ 518	\$ 3,154	\$ 9,442

<b>Ending balance of loans receivable:</b>																
Individually evaluated for impairment	\$	—	\$	582	\$	—	\$	2,492	\$	2,429	\$	18	\$	—	\$	5,521
Collectively evaluated for impairment								197,66							266,56	768,35
	53,914		87,413		67,852		4		71,117		9,833		13,992		7	2
Total loans receivable							200,15								266,56	773,87
	\$ 53,914		\$ 87,995		\$ 67,852		\$ 6		\$ 73,546		\$ 9,851		\$ 13,992		\$ 7	\$ 3
	<u>      </u>															

#### Allowance for Credit Losses - on Unfunded Lending Commitments

Unfunded lending commitments are off-balance sheet arrangements that represent unconditional commitments of the Company to lend to a borrower that are unfunded as of the balance sheet date. These may include unfunded loan commitments, standby letters of credit, and financial guarantees. The CECL accounting guidance requires that an estimate of expected credit loss be measured on commitments in which an entity is exposed to credit risk via a present contractual obligation to extend credit unless the obligation is unconditionally cancellable by the issuer. For the Company, unconditional lending commitments generally include unfunded term loan agreements, home equity lines of credit, lines of credit, and demand deposit account overdraft protection.

The Company's cumulative-effect adjustment upon the adoption As of CECL included a reserve for unfunded commitments of \$0.3 million. Subsequent to January 1, 2023, each quarter-end date, the Company recorded additional increases estimates expected credit losses on unfunded lending commitments over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the reserve for unfunded commitments totaling \$0.2 million which were included in the provision Company. The allowance for credit losses in the Company's consolidated statement of operations during the nine months ended September 30, 2023. As of September 30, 2023, the reserve, which on unfunded lending commitments is recorded in other liabilities, and adjustments to the allowance are recorded through the provision for (recovery of) credit losses.

#### Summary of Allowances for Credit Losses

The following tables present changes in the allowance for credit losses on loans and leases, as well as unfunded lending commitments, during the Company's consolidated balance sheets, totaled \$0.5 million. No reserve for unfunded commitments was recorded by the Company as of December 31, 2022, three months ended March 31, 2024 and 2023:

As of and for the Three Months Ended March 31, 2024															
Constructi															
on,															
Land	Real	Real	Non-	Developm	Estate	Estate	Farm Non-	Commerci							
ent,	1-4	Multi-	Residentia	ent,	Family	Family	al and	Direct	Branch	Indirect					
and Other	Family	Family	I	and Other			Industrial	Consumer	Retail	Consumer					Total
(Dollars in Thousands)															
<b>Allowance for credit losses on loans and leases:</b>															
Beginning balance	\$ 565	\$ 591	\$ 415	\$ 1,425	\$ 513	\$ 64	\$ 436	\$ 6,498							\$ 10,507
Charge-offs	—	(2)	—	—	—	(22)	(22)	(344)							(390)

Recoveries	—	23	—	—	—	—	100	54	30	207
Provision for (recovery of) credit losses	95	(80)	(15)	(75)	(24)	(74)	(161)	446	—	112
<b>Allowance for credit losses on loans and leases</b>										
	\$ 660	\$ 532	\$ 400	\$ 1,350	\$ 489	\$ 68	\$ 307	\$ 6,630	\$ 10,436	
<b>Allowance for credit losses on unfunded lending commitments:</b>										
Beginning balance	\$ 450	\$ 1	\$ 9	\$ 2	\$ 102	\$ 5	\$ —	\$ —	\$ —	\$ 569
Provision for (recovery of) credit losses on unfunded lending commitments	(100)	(1)	(1)	4	—	(14)	—	—	—	(112)
<b>Allowance for credit losses on unfunded lending commitments</b>										
	\$ 350	\$ —	\$ 8	\$ 6	\$ 102	\$ (9)	\$ —	\$ —	\$ —	\$ 457

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As of and for the Three Months Ended March 31, 2023										
Constructi on, Developm ent, and Other										
	Land	Real Estate		Real Estate		Non- Farm Non- Residentia l		Commerci al and Industrial		
	Family	Family		I	Residentia l		Industrial	Consumer	Direct	Branch
	Family	Family		I	Residentia l		Industrial	Consumer	Retail	Indirect
	Total			(Dollars in Thousands)						
<b>Allowance for credit losses on loans and leases:</b>										
Beginning balance	\$ 517	\$ 832	\$ 646	\$ 1,970	\$ 919	\$ 866	\$ 518	\$ 3,154	\$ 9,422	
Impact of adopting CECL accounting guidance	(94)	(39)	(85)	(147)	(20)	47	628	1,833	2,123	
Charge-offs	—	(8)	—	—	—	(215)	(155)	(156)	(534)	
Recoveries	—	16	—	—	—	198	77	28	319	
Provision for (recovery of) credit losses on loans and leases	97	(32)	(52)	(61)	(117)	(4)	—	438	269	
<b>Allowance for credit losses on loans and leases</b>										
	\$ 520	\$ 769	\$ 509	\$ 1,762	\$ 782	\$ 892	\$ 1,068	\$ 5,297	\$ 11,599	
<b>Allowance for credit losses on unfunded lending commitments:</b>										
Beginning balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Impact of adopting CECL accounting guidance	172	39	3	2	—	68	8	—	292	

Provision for (recovery of) credit losses on unfunded lending commitments	—	—	—	—	—	—	—	—	—	—	—	—
<b>Allowance for credit losses on unfunded lending commitments</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Allowance for credit losses on unfunded lending commitments</b>	<b>\$ 172</b>	<b>\$ 39</b>	<b>\$ 3</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 68</b>	<b>\$ 8</b>	<b>\$ —</b>	<b>\$ 292</b>			

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## Credit Quality Indicators

The Company utilizes a credit grading system that provides a uniform framework for establishing and monitoring credit risk in the loan portfolio. Under this system, construction, land, multi-family real estate, other commercial real estate, and commercial and industrial loans are graded based on pre-determined risk metrics and categorized into one of nine risk grades. These risk grades can be summarized into categories described as pass, special mention, substandard, doubtful and loss, as described in further detail below.

- Pass (Risk Grades 1-5): Loans in this category include obligations in which the probability of default is considered low.
- Special Mention (Risk Grade 6): Loans in this category exhibit potential credit weaknesses or downward trends deserving management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayer prospects for the asset or in the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification. Although a special mention asset has a higher probability of default than pass-rated categories, its default is not imminent.
- Substandard (Risk Grade 7): Loans in this category have defined weaknesses that jeopardize the orderly liquidation of debt. A substandard loan is inadequately protected by the current worth and paying capacity of the obligor or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy, although no loss of principal is envisioned. There is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified as substandard.
- Doubtful (Risk Grade 8): Loans classified as doubtful have all of the weaknesses found in substandard loans, with the added characteristic that the weaknesses make collection of debt in full, based on currently existing facts, conditions and values, highly questionable or improbable. Serious problems exist such that partial loss of principal is likely; however, because of certain important, reasonably specific pending factors that may work to strengthen the assets, the loans' classification as estimated losses is deferred until a more exact status may be determined. Such pending factors may include proposed merger, acquisition or liquidation procedures, capital injection, perfection of liens on additional collateral and refinancing plans. Loans classified as doubtful may include loans to borrowers that have demonstrated a history of failing to live up to agreements. The Company did not have any loans classified as Doubtful (Risk Grade 8) as of **September 30, 2023** **March 31, 2024** or **December 31, 2022** **December 31, 2023**.
- Loss (Risk Grade 9): Loans are classified in this category when borrowers are deemed incapable of repayment of unsecured debt. Loans to such borrowers are considered uncollectable and of such little value that continuance as active assets of the Company is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not prudent to defer writing off these assets, even though partial recovery may be realized in the future. The Company did not have any loans classified as Loss (Risk Grade 9) as of **September 30, 2023** **March 31, 2024** or **December 31, 2022** **December 31, 2023**.

Because residential real estate and consumer loans are more uniform in nature, each loan is categorized into one of two risk grades, depending on whether the loan is considered to be performing or nonperforming. Performing loans are loans that are paying principal and interest in accordance with a contractual agreement. Nonperforming loans are loans that have demonstrated characteristics that indicate a probability of loss.

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The tables below illustrate the carrying amount of loans and leases by credit quality indicator and year of origination as of **September 30, 2023** **March 31, 2024**:

<b>September 30, 2023</b>												
<b>Loans at Amortized Cost Basis by Origination Year</b>												
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>Prior</b>	<b>Total</b>					
(Dollars in Thousands)												
<b>Commercial:</b>												
Construction, land development and other land loans	Pass											
	\$ 3,716	\$ 38,961	\$ 40,404	\$ 6,377	\$ 593	\$ 90,051						
	Special											
	Mention	■	■	■	■	■	■	■	■			
	Substandard	■	■	■	■	■	■	■	■			
	Doubtful	■	■	■	■	■	■	■	■			
	Loss	■	■	■	■	■	■	■	■			
	Subtotal	<u>\$ 3,716</u>	<u>\$ 38,961</u>	<u>\$ 40,404</u>	<u>\$ 6,377</u>	<u>\$ 593</u>	<u>\$ 90,051</u>					
	Current period											
	gross charge-offs	■	■	■	■	■	■	■	■			
<b>Secured by multi-family residential properties:</b>												
properties	Pass											
	\$ 383	\$ 28,513	\$ 5,991	\$ 686	\$ 7,151	\$ 13,782	\$ 56,506					
	Special											
	Mention	■	■	■	■	■	■	■	■			
	Substandard	■	■	■	■	■	■	■	■			
	Doubtful	■	■	■	■	■	■	■	■			
	Loss	■	■	■	■	■	■	■	■			
	Subtotal	<u>\$ 383</u>	<u>\$ 28,513</u>	<u>\$ 5,991</u>	<u>\$ 686</u>	<u>\$ 7,151</u>	<u>\$ 13,782</u>	<u>\$ 56,506</u>				

	Subtotal	\$ 383	\$ 28,513	\$ 5,991	\$ 686	\$ 7,151	\$ 13,782	\$ 56,506
Current period								
gross charge-								
offs	\$	\$	\$	\$	\$	\$	\$	\$
Secured by non-farm, non-residential properties	Pass							
	\$ 8,683	\$ 35,499	\$ 25,519	\$ 56,913	\$ 18,618	\$ 47,516	\$ 192,748	
Special								
Mention	\$	536	1,295	347	\$	1,690	\$	3,868
Substandard	\$	\$	\$	152	\$	2,348	\$	2,500
Doubtful	\$	\$	\$	\$	\$	\$	\$	\$
Loss	\$	\$	\$	\$	\$	\$	\$	\$
Subtotal	\$ 8,683	\$ 36,035	\$ 26,814	\$ 57,412	\$ 18,618	\$ 51,554	\$ 199,116	
Current period								
gross charge-								
offs	\$	\$	\$	\$	\$	\$	\$	\$
Commercial and industrial loans and leases	Pass							
	\$ 7,435	\$ 7,401	\$ 15,424	\$ 2,494	\$ 3,802	\$ 20,643	\$ 57,199	
Special								
Mention	\$	170	899	199	57	\$	1,325	
Substandard	\$	44	209	25	305	262	\$	845
Doubtful	\$	\$	\$	\$	\$	\$	\$	\$
Loss	\$	\$	\$	\$	\$	\$	\$	\$
Subtotal	\$ 7,435	\$ 7,615	\$ 16,532	\$ 2,718	\$ 4,164	\$ 20,905	\$ 59,369	
Current period								
gross charge-								
offs	\$	\$	\$	\$	\$	\$	\$	\$
Total commercial	Pass	\$ 20,217	\$ 110,374	\$ 87,338	\$ 66,470	\$ 29,571	\$ 82,534	\$ 396,504
Special								
Mention	\$	706	2,194	546	57	1,690	\$	5,193
Substandard	\$	44	209	177	305	2,610	\$	3,345
Doubtful	\$	\$	\$	\$	\$	\$	\$	\$
Loss	\$	\$	\$	\$	\$	\$	\$	\$
	\$ 20,217	\$ 111,124	\$ 89,741	\$ 67,193	\$ 29,933	\$ 86,834	\$ 405,042	
Current period								
gross charge-								
offs	\$	\$	\$	\$	\$	\$	\$	\$
March 31, 2024								
Loans at Amortized Cost Basis by Origination Year								

	2024	2023	2022	2021	2020	Prior	Total							
	(Dollars in Thousands)													
Commercial:														
Construction, land development and other land loans														
Pass														
	\$ 1,088	\$ 8,391	\$ 47,121	\$ 44,385	\$ 785	\$ 512	\$ 102,282							
Special														
Mention	—	—	—	—	—	—	—							
Substandard	—	—	—	—	—	—	—							
Doubtful	—	—	—	—	—	—	—							
Loss	—	—	—	—	—	—	—							
Subtotal	\$ 1,088	\$ 8,391	\$ 47,121	\$ 44,385	\$ 785	\$ 512	\$ 102,282							
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>							
Secured by multi-family residential properties														
Pass														
	\$ 64	\$ 404	\$ 29,669	\$ 5,909	\$ 5,662	\$ 20,437	\$ 62,145							
Special														
Mention	—	—	—	—	—	—	—							
Substandard	—	—	—	—	—	—	—							
Doubtful	—	—	—	—	—	—	—							
Loss	—	—	—	—	—	—	—							
Subtotal	\$ 64	\$ 404	\$ 29,669	\$ 5,909	\$ 5,662	\$ 20,437	\$ 62,145							
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>							
Secured by non-farm, non-residential properties														
Pass														
	\$ 70	\$ 27,290	\$ 36,186	\$ 24,554	\$ 55,913	\$ 64,971	\$ 208,984							
Special														
Mention	—	—	314	494	341	406	1,555							
Substandard	—	—	—	72	150	1,704	1,926							
Doubtful	—	—	—	—	—	—	—							
Loss	—	—	—	—	—	—	—							
Subtotal	\$ 70	\$ 27,290	\$ 36,500	\$ 25,120	\$ 56,404	\$ 67,081	\$ 212,465							
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>							

		Current period						
		gross charge-offs						
		\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
Commercial and industrial loans and leases	Pass	\$ 1,117	\$ 10,577	\$ 4,901	\$ 14,224	\$ 2,798	\$ 22,741	\$ 56,358
	Special							
	Mention	—	—	—	—	—	—	—
	Substandard	—	—	114	95	51	494	754
	Doubtful	—	—	—	—	—	—	—
	Loss	—	—	—	—	—	—	—
	Subtotal	\$ 1,117	\$ 10,577	\$ 5,015	\$ 14,319	\$ 2,849	\$ 23,235	\$ 57,112
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
Total commercial	Pass	\$ 2,339	\$ 46,662	\$ 117,877	\$ 89,072	\$ 65,158	\$ 108,661	\$ 429,769
	Special							
	Mention	—	—	314	494	341	406	1,555
	Substandard	—	—	114	167	201	2,198	2,680
	Doubtful	—	—	—	—	—	—	—
	Loss	—	—	—	—	—	—	—
	Subtotal	\$ 2,339	\$ 46,662	\$ 118,305	\$ 89,733	\$ 65,700	\$ 111,265	\$ 434,004
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>

September 30, 2023										March 31, 2024								
Consumer:	Loans at Amortized Cost Basis by Origination Year										Loans at Amortized Cost Basis by Origination Year							
	2024							2023			2022		2021		2020		Prior	Total
	3	2	1	0	9	or	Tot	—	—	—	—	—	—	—	—	—	(Dollars in Thousands)	
Secured by 1-4 family residential properties	Performing										Performing							
	Perf	ormi	ng	2	1	1		2	8									
	4, 2	1, 1	4, 2	2, 0	9, 3	0, 3		9, 9	0, 0									
	8, 8	9, 9	8, 8	2, 2	2, 2	1, 1		2, 2	1, 2									
	\$ 2	\$ 2	\$ 6	\$ 6	\$ 8	\$ 8	\$ 3	\$ 7	\$ 8		\$ 1,227	\$ 4,109	\$ 18,852	\$ 14,765	\$ 6,596	\$ 27,989	\$ 73,538	
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	Non	Non-performing										Non-performing						
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	perf	ormi	ng	—	—	—	—	—	—		8	8	4	4	—	—		
	—	—	—	—	—	—	—	—	—		8	8	—	—	—	—		
	Sub	2	1	1		2		8	8									
	total	4, 2	1, 1	4, 2	2, 0	9, 3	1, 3	2, 2	1, 2									
	8, 8	9, 9	8, 8	2, 2	2, 2	6, 6	7	8, 8	7, 7									
	\$ 2	\$ 2	\$ 6	\$ 6	\$ 8	\$ 8	\$ 3	\$ 5	\$ 6		\$ 1,227	\$ 4,109	\$ 18,852	\$ 14,765	\$ 6,596	\$ 28,812	\$ 74,361	
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	Curr	Current period gross charge-offs										Current period gross charge-offs						
	ent	peri	od	gros	s	char	ge-	9	9									
	—	—	—	—	—	—	—	—	—		\$ —	\$ —	\$ —	\$ —	\$ —	\$ —		
	offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—		
	ge-	9	9															
	off	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ 6									
	—	—	—	—														

Direct	Perf	2,	1,	1,		6,	Performing	
	ormi	0	3	9	7	2	1	5
	ng	5	7	6	3	8	2	4
		\$ 2	\$ 9	\$ 1	\$ 9	\$ 8	\$ 5	\$ 4
								\$ 706 \$ 2,008 \$ 990 \$ 1,155 \$ 454 \$ 277 \$ 5,590
	Non						Non-performing	
	-							
	perf							
	ormi							
	ng	—	—	—	—	—	—	—
Sub	Sub	2,	1,	1,		6,	Subtotal	
	total	0	3	9	7	2	1	5
		5	7	6	3	8	2	4
		\$ 2	\$ 9	\$ 1	\$ 9	\$ 8	\$ 5	\$ 4
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
		\$ 706	\$ 2,008	\$ 990	\$ 1,155	\$ 454	\$ 277	\$ 5,590
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Current	Curr						Current period gross	
	ent						charge-offs	
	peri							
	od							
	gross							
	s							
	char	2	1			5		
	ge-	7	1	3	8	2		
	offs	\$—	\$ 5	\$ 4	\$ 5	\$ 9	\$ 8	\$ 1
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Branch	Perf	2,	2,	1,	2,	9,	Performing	
	ormi	4	9	7	4	6		
	ng	0	9	9	5	4		
		\$—	\$—	\$ 5	\$ 0	\$ 4	\$ 9	\$ 8
								\$ 1,863 \$ 2,466 \$ 3,465 \$ 7,794
	Non						Non-performing	
	-							
	perf							
	ormi							
	ng	—	—	—	—	—	—	—
Retail	Sub	2,	2,	1,	2,	9,	Subtotal	
	total	4	9	7	4	6		
		0	9	9	5	4		
		\$—	\$—	\$ 5	\$ 0	\$ 4	\$ 9	\$ 8
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
		\$ 1,863	\$ 2,466	\$ 3,465	\$ 7,794			
		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>



23 19

The tables below illustrate the carrying amount of loans and leases by credit quality indicator and year of origination as of December 31, 2022 December 31, 2023:

**December 31, 2022** **December 31, 2023**



				Current							
				period gross							
				charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Secured by	1			Pass							
non-farm, non-	9										
residential	7,		20								
properties	0		0,								
	0	2,50	15								
	4	651	1	6							
					\$ 26,521	\$ 36,141	\$ 23,551	\$ 56,404	\$ 18,127	\$ 46,261	\$ 207,005
				Special							
				Mention	—	532	1,776	344	—	1,448	4,100
				Substandard	—	—	—	152	—	2,329	2,481
				Doubtful	—	—	—	—	—	—	—
				Loss	—	—	—	—	—	—	—
				Subtotal	\$ 26,521	\$ 36,673	\$ 25,327	\$ 56,900	\$ 18,127	\$ 50,038	\$ 213,586
					<u>\$ 26,521</u>	<u>\$ 36,673</u>	<u>\$ 25,327</u>	<u>\$ 56,900</u>	<u>\$ 18,127</u>	<u>\$ 50,038</u>	<u>\$ 213,586</u>
				Current							
				period gross							
				charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and	7			Pass							
industrial loans	0,										
	5		73								
	0	3,04	,5								
	0	—	6	46							
					\$ 10,948	\$ 6,187	\$ 14,586	\$ 2,593	\$ 1,565	\$ 22,614	\$ 58,493
Total	3										
	8										
	9,		39								
	2		5,								
	7	5,54	46								
	\$ 0	\$ 651	\$ 7	\$ 8							
As a	9										
percentage of	8.		10								
total loans	4		0.								
	3 %	0.17 %	1.40 %	00 %							
				Special							
				Mention	—	159	782	174	38	—	1,153
				Substandard	—	116	191	59	260	243	869

	Doubtful	—	—	—	—	—	—	—	—
	Loss	—	—	—	—	—	—	—	—
	Subtotal	\$ 10,948	\$ 6,462	\$ 15,559	\$ 2,826	\$ 1,863	\$ 22,857	\$ 60,515	
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
	Current								
	period gross								
	charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
Total commercial									
	Pass	\$ 45,789	\$ 109,079	\$ 85,887	\$ 65,477	\$ 26,755	\$ 83,048	\$ 416,035	
	Special								
	Mention	—	691	2,558	518	38	1,448	5,253	
	Substandard	—	116	191	211	260	2,572	3,350	
	Doubtful	—	—	—	—	—	—	—	
	Loss	—	—	—	—	—	—	—	
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
	\$ 45,789	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>
	Current								
	period gross								
	charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
		<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>

	December 31, 2022					
	Nonperforming					
	Performing		Non		Total	
	(Dollars in Thousands)					
Loans secured by real estate:						
Secured by 1-4 family residential properties	\$ 86,871	\$ 1,124	\$		87,995	
Consumer loans:						
Direct	9,805	46			9,851	
Branch retail	13,960	32			13,992	
Indirect	266,496	71			266,567	
Total	\$ 377,132	\$ 1,273	\$		378,405	
	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	<u>  </u>	

As a percentage of total loans	99.66 %	0.34 %	100.00 %
--------------------------------	---------	--------	----------

December 31, 2023										
Loans at Amortized Cost Basis by Origination Year										
	2023	2022	2021	2020	2019	Prior				Total
(Dollars in Thousands)										
Consumer:										
Secured by 1-4 family residential properties	Performing	\$ 4,230	\$ 20,172	\$ 14,986	\$ 6,675	\$ 8,950	\$ 20,334	\$ 75,347		
	Non-performing	—	—	—	—	—	—	853	853	
	Subtotal	\$ 4,230	\$ 20,172	\$ 14,986	\$ 6,675	\$ 8,950	\$ 21,187	\$ 76,200		
	Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 97	\$ 97		
Direct consumer	Performing	\$ 2,383	\$ 1,157	\$ 1,485	\$ 575	\$ 225	\$ 113	\$ 5,938		
	Non-performing	—	—	—	—	—	—	—		
	Subtotal	\$ 2,383	\$ 1,157	\$ 1,485	\$ 575	\$ 225	\$ 113	\$ 5,938		
	Current period gross charge-offs	\$ 2	\$ 5	\$ 316	\$ 118	\$ 42	\$ 88	\$ 571		
Branch retail	Performing	\$ —	\$ —	\$ 2,160	\$ 2,696	\$ 1,572	\$ 2,242	\$ 8,670		
	Non-performing	—	—	—	—	—	—	—		
	Subtotal	\$ —	\$ —	\$ 2,160	\$ 2,696	\$ 1,572	\$ 2,242	\$ 8,670		
	Current period gross charge-offs	\$ —	\$ —	\$ 108	\$ 140	\$ 57	\$ 140	\$ 445		
Indirect consumer	Performing	\$ 88,688	\$ 89,376	\$ 66,147	\$ 50,883	\$ 5,485	\$ 5,712	\$ 306,291		

	Non-	—	—	54	—	—	—	—	54
	performing	—	—	—	—	—	—	—	—
	Subtotal	\$ 88,688	\$ 89,376	\$ 66,201	\$ 50,883	\$ 5,485	\$ 5,712	\$ 306,345	
<hr/>									
Current									
period gross									
	charge-offs	\$ 6	\$ 235	\$ 332	\$ 270	\$ 39	\$ 50	\$ 932	
<hr/>									
Total consumer:	Performing	\$ 95,301	\$ 110,705	\$ 84,778	\$ 60,829	\$ 16,232	\$ 28,401	\$ 396,246	
	Non-	—	—	54	—	—	853	907	
	performing	—	—	—	—	—	—	—	—
		\$ 95,301	\$ 110,705	\$ 84,832	\$ 60,829	\$ 16,232	\$ 29,254	\$ 397,153	
<hr/>									
Current									
period gross									
	charge-offs	\$ 8	\$ 240	\$ 756	\$ 528	\$ 138	\$ 375	\$ 2,045	

The following table provides an aging analysis of past due loans by class as of **September 30, 2023** **March 31, 2024**:

As of September 30, 2023	As of March 31, 2024
--------------------------	----------------------

										Re						
										cor						
										de						
										d						
										inv						
										est						
										me						
										nt						
										>						
30-	60-									90						
59	89	90								Da						
Da	Da	Da	Tot							ys						
ys	ys	ys	al				To	An								
Pa	Pa	Or	Pa				tal	d	30-59	60-89	90					
st	st	Gre	st	Cu	Lo	Ac	Days		Days	Days	Total					
Du	Du	ate	Du	rre	an	cru	Past		Past	Or	Past					
e	e	r	e	nt	s	ing	Due		Due	Greater	Due	Current	Total	And	Loans	Accruing

Secu red by 1- 4 famil y resid ential prop erties	8 3 ,, 1 9 3 6 —	8 3 ,, 7 7 6 —	727 —	20 747 73,614 74,361 —
Secu red by multi- famil y resid ential prop erties	5 6 ,, 5 0 —	5 6 ,, 5 0 6 —	— — — —	62,145 62,145 —
Secu red by non- farm, non- resid ential prop erties	1 9 7 1, 3 1 4 — —	1 9 9 ,, 3 8 1 0 2 6 —	— — — 1,289 1,289 211,176 212,465 —	— — — 1,289 1,289 211,176 212,465 —
Comme rcial and industri al loans	5 9 ,, 2 2 6 2 —	5 9 ,, 3 8 6 9 —	37 — 169 206 56,906 57,112 —	56,906 57,112 —

Consumer loans:	—	—	—	—	—	—	—	—	—	—	—	—	—	
Direct		6	6											
, ,		,	,											
4 5		4	5											
5 5		5	9	4										
2 — —	2	2	4	—			21	—	—	21	5,569	5,590	—	
Branch retail		9	9											
, ,		,	,											
1 1		1	5	6										
0 0		0	4	4										
0 0	0	8	8	—			9	29	—	38	7,756	7,794	—	
Indirect		3	3											
, ,		,	,											
3 1 1	6	5	1											
3 7 4	4	4	9											
5 1 2	8	2	0	—			277	82	73	432	300,760	301,192	—	
Total		8	8											
		1	1											
		2	5											
		1, ,	2, ,	, ,										
		9 2 2	3 9	3										
		1 0 0	2 7	0										
	\$ 6	\$ 7	\$ 4	\$ 7	\$ 3	\$ 0	\$ —	\$ 1,071	\$ 111	\$ 1,551	\$ 2,733	\$ 820,208	\$ 822,941	\$ —
As a percentage of total loans														
age of total loans							1							
0. 0. 0.	0. 0.	0. 0.	0. 0.	0. 0.	0. 0.	0. 0.								
2 0 0	2 0	2 0	2 0	2 0	2 0	2 0								
4% 2% 3%	9% 1%	9% 1%	9% 1%	9% 1%	9% 1%	9% 1%	0.13%	0.01%	0.19%	0.33%	99.67%	100.00%		

The following table provides an aging analysis of past due loans by class as of **December 31, 2022** **December 31, 2023**:

As of December 31, 2022							As of December 31, 2023										
Re	cor	de	d	Inv	est	me	nt	>	Re	cor	de	d	Inv	est	me	nt	>
30-	60-			90					30-59	60-89	90						
59	89	90							Days	Days	Days	Total					
Da	Da	Da	Tot						Past	Past	Or	Past					
ys	ys	ys	al		To	An			Due	Due	Greater	Due	Current	Total	And		
Pa	Pa	Or	Pa		tal	d							Loans		Accruing		
st	st	Gre	st	Cu	Lo	Ac											
Du	Du	ate	Du	rre	an	cru											
e	e	r	e	nt	s	ing											
(Dollars in Thousands)							(Dollars in Thousands)										
Loans secured by real estate:																	
Constructi on, land devel opm ent				5	5												
				3	3												
and other land loans				,	,												
				9	9												
				1	1												
	\$—	\$—	\$—	\$—	\$4	\$4	\$—	\$—	\$—	\$—	\$—	\$—	\$88,140	\$88,140	\$—	\$—	

Secu red by 1- 4 famil y resid ential prop erties	8 7 ,,	8 7 ,,	8 0 9	8 2 9	—	820	177	23	1,020	75,180	76,200	—
Secu red by multi- famil y resid ential prop erties	6 7 ,,	6 7 ,,	6 8 5	6 8 5	—	—	—	—	—	62,397	62,397	—
Secu red by non- farm, non- resid ential prop erties	2 0 0 ,,	2 0 0 ,,	2 1 1	2 1 1	—	—	—	—	1,302	1,302	212,284	213,586
Comme rcial and industri al loans	7 3 3 0 1	7 3 3 6 5	7 3 1 8 6	7 3 1 8 6	—	89	34	147	270	60,245	60,515	—

Consumer loans:														
Direct				9	9									
				,	,									
2			3	5	8									
5	5	3	3	2	5									
1	0	0	0	1	1	—	42	—	—	42	5,896	5,938	—	
Branches				1	1									
Retail				3	3									
				,	,									
2			3	6	9									
5	8	3	7	1	9									
8	5	2	5	7	2	—	39	1	—	40	8,630	8,670	—	
Indirect				2	2									
				6	6									
				,	,									
1			3	2	5									
8	5	7	1	5	6									
6	5	1	2	5	7	—	316	33	54	403	305,942	306,345	—	
Total				7	7									
				7	7									
				1	3									
				1,	2,	,								
				6	2	5	4	3	8					
				9	7	1	8	9	7					
	\$ 4	\$ 7	\$ 1	\$ 1	\$ 2	\$ 3	\$—	\$ 1,306	\$ 245	\$ 1,526	\$ 3,077	\$ 818,714	\$ 821,791	\$ —
As a percentage of total loans	1%	4%	7%	2%	8%	0%		0.15%	0.03%	0.19%	0.37%	99.63%	100.00%	

The **table** **tables** below **presents** **present** the amortized cost of loans on nonaccrual status and loans past due 90 days or more and still accruing interest as of **September 30, 2023**, **March 31, 2024** and **December 31, 2023**. Also presented is the balance of loans on nonaccrual status at **September 30, 2023**, **March 31, 2024** and **December 31, 2023** for which there was no related allowance for credit losses recorded.

Loans on Non-Accrual Status			
September 30, 2023			
(Dollars in Thousands)			
	Total nonaccrual loans	Nonaccrual loans with no allowance for credit losses	Loans past due 90 days or more and still accruing
Loans secured by real estate:			
Construction, land development and other land loans	\$ —	\$ —	\$ —
Secured by 1-4 family residential properties	891	462	—
Secured by multi-family residential properties	—	—	—
Secured by non-farm, non-residential properties	1,314	1,314	—
Commercial and industrial loans	85	77	—
Consumer loans:			
Direct	—	—	—
Branch retail	—	—	—
Indirect	142	—	—
<b>Total loans</b>	<b>\$ 2,432</b>	<b>\$ 1,853</b>	<b>\$ —</b>

Loans on Non-Accrual Status			
March 31, 2024			
(Dollars in Thousands)			
	Total nonaccrual loans	Nonaccrual loans with no allowance for credit losses	Loans past due 90 days or more and still accruing
Loans secured by real estate:			
Construction, land development and other land loans	\$ —	\$ —	\$ —
Secured by 1-4 family residential properties	891	462	—
Secured by multi-family residential properties	—	—	—
Secured by non-farm, non-residential properties	1,314	1,314	—
Commercial and industrial loans	85	77	—
Consumer loans:			
Direct	—	—	—
Branch retail	—	—	—
Indirect	142	—	—
<b>Total loans</b>	<b>\$ 2,432</b>	<b>\$ 1,853</b>	<b>\$ —</b>

	Total nonaccrual loans	Nonaccrual loans with no allowance for credit losses	Loans past due 90 days or more and still accruing
Loans secured by real estate:			
Construction, land development and other land loans	\$ —	\$ —	\$ —
Secured by 1-4 family residential properties	859	439	—
Secured by multi-family residential properties	—	—	—
Secured by non-farm, non-residential properties	1,289	1,289	—
Commercial and industrial loans	172	51	—
Consumer loans:			
Direct	—	—	—
Branch retail	—	—	—
Indirect	73	—	—
<b>Total loans</b>	<b>\$ 2,393</b>	<b>\$ 1,779</b>	<b>\$ —</b>

The following table provides an analysis of nonaccruing loans by portfolio segment as of December 31, 2022:

	Loans on Non-Accrual Status		
	December 31, 2023		
	Total nonaccrual loans	Nonaccrual loans with no allowance for credit losses	Loans past due 90 days or more and still accruing
Loans secured by real estate:			
Construction, land development and other land loans	\$ —	\$ —	\$ —
Secured by 1-4 family residential properties	891	462	—
Secured by multi-family residential properties	—	—	—
Secured by non-farm, non-residential properties	1,302	1,314	—
Commercial and industrial loans	152	77	—
Consumer loans:			
Direct	—	—	—
Branch retail	—	—	—
Indirect	55	—	—
<b>Total loans</b>	<b>\$ 2,400</b>	<b>\$ 1,853</b>	<b>\$ —</b>
Loans on Non-Accrual Status			
December 31, 2022			

(Dollars in Thousands)		
Loans secured by real estate:		
Construction, land development and other land loans	\$	—
Secured by 1-4 family residential properties		914
Secured by multi-family residential properties		—
Secured by non-farm, non-residential properties		—
Commercial and industrial loans		605
Consumer loans:		
Direct		29
Branch retail		32
Indirect		71
Total loans	\$	1,651

The following table presents the amortized cost basis of collateral dependent loans as of September 30, 2023, March 31, 2024 and December 31, 2023, which loans are individually evaluated to determine credit losses:

	September 30, 2023			March 31, 2024								
	Real Estate		Other	Real Estate		Other						
	Estate	r	Total	Real Estate	Other	Total						
	(Dollars in Thousands)			(Dollars in Thousands)								
Loans secured by real estate												
Construction, land development and other land loans												
Secured by 1-4 family residential properties	\$ 498	—	498	\$ 468	—	468						
Secured by multi-family residential properties	—	—	—	—	—	—						
Secured by non-farm, non-residential properties	2,353	—	3	1,705	—	1,705						
Commercial and industrial	—	12	12	—	99	99						
Total loans individually evaluated	\$ 2,851	\$ 6	\$ 7	\$ 2,173	\$ 99	\$ 2,272						

The following table presents impaired loans as of December 31, 2022 as determined under ASC 310 prior to the adoption of ASC 326. Impaired loans generally include nonaccrual loans and other loans deemed to be impaired but that continue to accrue interest. Presented are the carrying amount, unpaid principal balance and related allowance of impaired loans as of December 31, 2022 by portfolio segment:

	December 31, 2022		
	Carrying Amount	Unpaid Principal Balance	Related Allowances
(Dollars in Thousands)			
<b>Impaired loans with no related allowance recorded</b>			
Loans secured by real estate			
Construction, land development and other land loans	\$ —	\$ —	\$ —
Secured by 1-4 family residential properties	568	568	—
Secured by multi-family residential properties	—	—	—
Secured by non-farm, non-residential properties	2,492	2,492	—
Commercial and industrial	2,076	2,076	—
Direct consumer	18	18	—
Total impaired loans with no related allowance recorded	<u>\$ 5,154</u>	<u>\$ 5,154</u>	<u>\$ —</u>
<b>Impaired loans with an allowance recorded</b>			
Loans secured by real estate			
Construction, land development and other land loans	\$ —	\$ —	\$ —
Secured by 1-4 family residential properties	14	14	7
Secured by multi-family residential properties	—	—	—
Secured by non-farm, non-residential properties	—	—	—
Commercial and industrial	353	353	252
Direct consumer	—	—	—
Total impaired loans with an allowance recorded	<u>\$ 367</u>	<u>\$ 367</u>	<u>\$ 259</u>
<b>Total impaired loans</b>			
Loans secured by real estate			
Construction, land development and other land loans	\$ —	\$ —	\$ —
Secured by 1-4 family residential properties	582	582	7
Secured by multi-family residential properties	—	—	—
Secured by non-farm, non-residential properties	2,492	2,492	—
Commercial and industrial	2,429	2,429	252
Direct consumer	18	18	—
Total impaired loans	<u>\$ 5,521</u>	<u>\$ 5,521</u>	<u>\$ 259</u>

The following table details the average recorded investment and the amount of interest income recognized and received for the nine months ended September 30, 2022, respectively, related to impaired loans as determined under ASC 310 prior to the adoption of ASC 326:

	Nine Months Ended September 30, 2022								
	Average Recorded Investment	Interest Recognized	Interest Income Received						
	(Dollars in Thousands)								
Loans secured by real estate									
Construction, land development and other land loans	\$ 116	\$ 2	\$ —	\$ —	\$ —	\$ —			
Secured by 1-4 family residential properties	624	4	—	—	—	4			
Secured by multi-family residential properties	—	—	—	—	—	—			
Secured by non-farm, non-residential properties	1,116	38	—	—	—	35			
Commercial and industrial	872	7	—	—	—	4			
Direct consumer	19	1	—	—	—	1			
<b>Total</b>	<b>\$ 2,747</b>	<b>\$ 52</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 44</b>	<b>\$ —</b>			

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	December 31, 2023		
	Real Estate	Other	Total
	(Dollars in Thousands)		
Loans secured by real estate			
Construction, land development and other land loans	\$ —	\$ —	\$ —
Secured by 1-4 family residential properties	485	—	485
Secured by multi-family residential properties	—	—	—
Secured by non-farm, non-residential properties	2,333	—	2,333
Commercial and industrial	—	112	112
Direct consumer	—	—	—
<b>Total loans individually evaluated</b>	<b>\$ 2,818</b>	<b>\$ 112</b>	<b>\$ 2,930</b>

#### Loan Modifications Made to Borrowers Experiencing Financial Difficulty

From time to time, the Company may modify the terms of loan agreements with borrowers that are experiencing financial difficulties. Modification of the terms of such loans typically include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk;

or a permanent reduction of the recorded investment in the loan. No modifications in **2023** **2024** or **2022** **2023** resulted in the permanent reduction of the recorded investment in the loan.

During the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and the year ended **December 31, 2023**, the Company did not modify any loans to borrowers experiencing financial difficulty, and there were no payment defaults on loans that were modified in the previous twelve months.

## 5. OTHER REAL ESTATE OWNED AND REPOSSESSED ASSETS

### Other Real Estate Owned

Other real estate and certain other assets acquired in foreclosure are reported at the net realizable value of the property, less estimated costs to sell. The following table summarizes foreclosed property activity as of the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**: **2023**:

	<b>September 30, 2023</b>	<b>September 30, 2022</b>	<b>March 31, 2024</b>	<b>March 31, 2023</b>
	<b>(Dollars in Thousands)</b>	<b>(Dollars in Thousands)</b>	<b>(Dollars in Thousands)</b>	<b>(Dollars in Thousands)</b>
Beginning balance	\$ 686	\$ 2,149	\$ 602	\$ 686
Additions	—	411	—	—
Additions <sup>(1)</sup>	—	—	—	—
Sales proceeds	—	(2,215)	—	—
Gross gains	—	369	—	—
Gross losses	—	(27)	—	—
Net gains	—	342	—	—
Impairment	(69)	(1)	(30)	(69)
Ending balance	<b>\$ 617</b>	<b>\$ 686</b>	<b>\$ 572</b>	<b>\$ 617</b>

<sup>(1)</sup> Additions to other real estate owned ("OREO") may include transfers from loans, transfers from closed branches, and capitalized improvements to existing OREO properties.

Valuation adjustments are recorded in other non-interest expense and are primarily post-foreclosure write-downs that are a result of continued declining property values based on updated appraisals or other indications of value, such as offers to purchase. Net realizable value less estimated costs to sell of foreclosed residential real estate held by the Company was **zero** and **\$20 thousand** as of **March 31, 2024** and **March 31, 2023**, respectively. In addition, the Company held **\$20 thousand** and **zero** as of **September 30, 2023** and **September 30, 2022**, respectively. In addition, the Company held **zero** and **\$19 thousand** in consumer mortgage loans collateralized by residential real estate that were in the process of foreclosure as of **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively.

## Repossessed Assets

The Company also acquires assets through the repossession of the underlying collateral of loans in default. The following table summarizes reposessed asset activity as of the **nine three** months ended **September 30, 2023** **March 31, 2024** and **2022: 2023**:

	September 30, 2023 (Dollars in Thousands)	September 30, 2022 (Dollars in Thousands)	March 31, 2024 (Dollars in Thousands)	March 31, 2023 (Dollars in Thousands)
Beginning balance	\$ 83	\$ 154	\$ 435	\$ 83
Transfers from loans	1,178	635	364	490
Sales proceeds	(453)	(331)	(294)	(128)
Gross gains	—	—	—	—
Gross losses	(535)	(292)	(344)	(180)
Net losses	(535)	(292)	(344)	(180)
Impairment	—	—	—	—
Ending balance	\$ 273	\$ 166	\$ 161	\$ 265

Repossessed assets are included in Other Assets in the Company's condensed consolidated balance sheets.

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## 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is tested for impairment annually, or more often if circumstances warrant. If, as a result of impairment testing, it is determined that the **implied** fair value of goodwill is lower than its carrying amount, **impairment is indicated, and** goodwill must be written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements. Goodwill **originally recorded as a result of the Company's acquisition of The Peoples Bank ("TPB") in 2018, totaled \$7.4 million as of both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.** Goodwill impairment was neither indicated nor recorded during the **nine three** months ended **September 30, 2023 March 31, 2024** or the year ended **December 31, 2022 December 31, 2023.**

Core deposit premiums are amortized over a seven-year period and are periodically evaluated, at least annually, as to the recoverability of their carrying value. **Core** **No** write-downs of core deposit premiums of \$2.0 million were recorded by the Company during 2018 as part of the TPB acquisition. **three months ended March 31, 2024 or the year ended December 31, 2023.**

The Company's goodwill and other intangible assets (carrying basis and accumulated amortization) as of **September 30, 2023 March 31, 2024** and **December 31, 2022 December 31, 2023** were as follows:

	September 30, 2023 (Dollars in Thousands)	December 31, 2022 (Dollars in Thousands)	March 31, 2024 (Dollars in Thousands)	December 31, 2023 (Dollars in Thousands)
	\$ 7,435	\$ 7,435	\$ 7,435	\$ 7,435
Goodwill				

Core deposit intangible:				
Gross carrying amount	2,048	2,048	2,048	2,048
Accumulated amortization	(1,841)	(1,682)	(1,914)	(1,877)
Core deposit intangible, net	207	366	134	171
Total	\$ 7,642	\$ 7,801	\$ 7,569	\$ 7,606

The Company's estimated remaining amortization expense on intangible assets as of **September 30, 2023** **March 31, 2024** was as follows:

	Amortization Expense		Amortization Expense	
	(Dollars in Thousands)		(Dollars in Thousands)	
2023	\$	36		
2024		122	\$	85
2025		49		49
Total	\$	207	\$	134

The net carrying amount of the Company's core deposit premiums is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from use and eventual disposition. That assessment is based on the carrying amount of the intangible assets subject to amortization at the date on which it is tested for recoverability. Intangible assets subject to amortization are tested by the Company for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

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## 7. BORROWINGS

### Short-Term Borrowings

Short-term borrowings consist of federal funds purchased, securities sold under repurchase agreements, and short-term FHLB advances with original maturities of one year or less.

- Federal funds purchased, which represent unsecured lines of credit that generally mature within one to 90 days, are available to the Bank through arrangements with correspondent banks and the FRB. As of both **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, there were no federal funds purchased outstanding.
- Securities sold under repurchase agreements, which are secured borrowings, generally are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. The Bank monitors the fair value of the underlying securities on a daily basis. There

were no securities sold under repurchase agreements as of **September 30, 2023** **both March 31, 2024 and December 31, 2023**. As of December 31, 2022, securities sold under repurchase agreements totaled \$38 thousand.

- Short-term FHLB advances are secured borrowings available to the Bank as an alternative funding source. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Bank had **\$30.0** **15.0** million and **\$20.0** **10.0** million, respectively, in outstanding FHLB advances with original maturities of less than one year.

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## Long-Term Borrowings

### *FHLB Advances*

The Company may use FHLB advances with original maturities of more than one year as an alternative to funding sources with similar maturities, such as certificates of deposit or other deposit programs. These advances generally offer more attractive rates than other mid-term financing options. They are also flexible, allowing the Company to quickly obtain the necessary maturities and rates that best suit its overall asset/liability strategy. FHLB advances with an original maturity of more than one year are classified as long-term. As of both **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Company did not have any long-term FHLB advances outstanding.

### *Subordinated Debt*

On October 1, 2021, the Company completed a private placement of \$11.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes that will mature on October 1, 2031 (the "Notes"). The Notes bear interest at a rate of 3.50% per annum for the first five years, after which the interest rate will be reset quarterly to a benchmark interest rate per annum which, subject to certain conditions provided in the Notes, will be equal to the then current three-month term Secured Overnight Financing Rate ("SOFR") plus 275 basis points. The Company used the net proceeds of the Notes for general corporate purposes, including which included repurchasing of the Company's common stock, and supporting organic growth plans, including the maintenance of the Bank's capital ratios. Net of unamortized debt issuance costs, the Notes were recorded as long-term borrowings totaling \$10.8 million and \$10.7 million as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively. The table below provides additional information related to the Notes as of and for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**.

	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
	(Dollars in Thousands)		(Dollars in Thousands)	
Balance at period-end	\$10,781	\$10,708	\$10,817	\$10,744
Average balance during the period	\$10,775	\$10,702	\$10,811	\$10,738
Maximum month-end balance during the year	\$10,781	\$10,708		
Maximum month-end balance during the period			\$10,817	\$10,744
Average rate paid during the period, including amortization of debt issuance costs	4.16%	4.16%	4.20%	4.20%

Weighted average remaining maturity (in years)	8.00	9.00	7.50	8.50
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## Available Credit

As an additional funding source, the Company has available unused lines of credit with correspondent banks, the FRB and the FHLB. Certain of these funding sources are subject to underlying collateral. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Company's available unused lines of credit consisted of the following:

Available Unused Lines of Credit	Collateral Requirements	September 30,	
		2023 March 31,	December 31,
		2024	2022 2023
Correspondent banks	None	\$48.0 million	\$45.0 48.0 million
FHLB advances <sup>(1)</sup>	Subject to collateral	\$260.3276.8 million	\$246.8279.4 million
FRB <sup>(2)</sup>	Subject to collateral	\$146.6158.8 million	\$1.2161.7 million

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(1) These amounts represent the total remaining credit the Company has from the FHLB, but this credit can only be utilized to the extent that underlying collateral exists. The total lendable collateral value of assets pledged (including loans and investment securities) associated with FHLB advances and letters of credit totaled **\$66.7** **60.9** million and **\$68.2** **61.7** million as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively. The Company's collateral exposure with the FHLB in the form of advances and letters of credit was **\$60.0** **45.0** million and **\$50.0** **40.0** million as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively, leaving an excess of collateral of **\$6.7** **15.9** million and **\$18.2** **21.7** million, respectively, available to utilize for additional credit as of the respective dates. The Company also has the ability to pledge additional assets to increase the availability of borrowings.

(2) The Company has access to the FRB's discount window, and its Bank Term Funding Program (BTFP), the latter of which was established during the first quarter of 2023 in response to the liquidity events that occurred in the banking industry. Both the discount window and the BTFP allow borrowing on pledged collateral that includes eligible investment securities and in certain circumstances, eligible loans. The discount window allows borrowing loans under 90-day terms, while borrowing terms under the BTFP are up to one year. The BTFP also allows investment securities to be pledged as collateral at 100% of par value when par value is greater than fair value. The amounts shown in the table represent the Company's unused borrowing capacity as of the applicable date based on collateral pledged to the FRB's discount window. No collateral was pledged by the Company under the BTFP as of September 30, 2023.

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## 8. INCOME TAXES

The provision for income taxes was \$2.0 million and \$1.40.7 million for the nine both the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The Company's effective tax rate was 24.423.6% and 23.723.9%, respectively, for the same periods. The effective tax rate is impacted by recurring permanent differences, such as those associated with bank-owned life insurance and tax-exempt investment and loan income.

The Company had a net deferred tax asset of \$6.35.0 million and \$5.25.3 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The net deferred tax asset, which is included on the interim condensed consolidated balance sheet in other assets, is impacted by changes in the fair value of securities available-for-sale and cash flow hedges, changes in net operating loss carryforwards, changes in the allowance for credit losses, and other book-to-tax temporary differences. The net deferred tax asset increased by \$0.6 million as a result of the cumulative effect adjustment to adopt ASC 326, effective January 1, 2023.

## 9. DEFERRED COMPENSATION PLANS

### **Supplemental Retirement Benefits**

The Company has entered into supplemental retirement compensation benefits agreements with certain directors and former executive officers. The measurement of the liability under these agreements includes estimates involving life expectancy, length of time before retirement and the expected returns on the bank-owned life insurance policies used to fund those agreements. Should these estimates prove to be materially wrong, the cost of these agreements could change accordingly. The related deferred compensation obligation to these directors and executive officers included in other liabilities was \$3.0 million and \$3.12.9 million as of September 30, 2023 both March 31, 2024 and December 31, 2022, respectively. December 31, 2023.

### **Non-Employee Directors' Deferred Compensation Plan**

Non-employee directors may elect to defer payment of all or any portion of their director fees under Bancshares' Non-Employee Directors' Deferred Compensation Plan (the "Deferral Plan"). The Deferral Plan permits non-employee directors to invest their directors' fees and to receive the adjusted value of the deferred amounts in cash and/or shares of Bancshares' common stock, as applicable. Neither Bancshares nor the Bank makes any contribution to participants' accounts under the Deferral Plan. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, a total of 111,340 114,949 and 114,190 113,042 shares of Bancshares common stock, respectively, were being held as stock equivalents in connection with the Deferral Plan. All deferred fees and shares of Bancshares common stock are reflected as compensation expense in the period earned. The Company classifies all deferred directors' fees allocated to be paid in shares as equity as additional paid-in capital. The Company may use issued shares or shares of treasury stock to satisfy these obligations when due.

## 10. STOCK AWARDS

In 2013, Bancshares' shareholders authorized the Company, under the direction of the Compensation Committee of the Board of Directors, to provide share-based compensation awards to eligible employees, directors and consultants of the Company and its affiliates pursuant to the 2013 Incentive Plan. Available award types included stock options, stock appreciation rights, restricted stock and restricted stock units, and performance share awards. The 2013 Incentive Plan, as amended in 2019, expired in March 2023. In April 2023, Bancshares' shareholders approved the 2023 Incentive Plan, which authorizes the Compensation Committee to grant substantially the same types of share-based awards to eligible employees, directors and consultants. Collectively, the 2013 Incentive Plan and the 2023 Incentive Plan are herein referred to as the Company's "Incentive Plan." In accordance with the Incentive Plan, shares of common stock available for issuance pursuant to the grants may consist, in whole or in part, of authorized and unissued

shares, treasury shares or shares reacquired by the Company in any manner. Since the origination of the Incentive Plan, through September 30, 2023 March 31, 2024, only stock options and restricted stock have been granted. For the nine months ended September 30, 2023, stock-based Stock-based compensation expense related to stock awards totaled \$0.4 million, compared to \$0.30.1 million for both the nine three months ended September 30, 2022, March 31, 2024 and 2023, respectively.

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### Stock Options

Stock option awards have been granted with an exercise price equal to the market price of the Company's common stock on the date of the grant and have vesting periods ranging from one to three years, with 10-year contractual terms. The Company recognizes the cost of services received in exchange for stock option awards based on the grant date fair value of the award, with compensation expense recognized on a straight-line basis over the award's vesting period. The fair value of outstanding awards was determined using the Black-Scholes option pricing model. The Company did not grant any stock option awards during the nine three months ended September 30, 2023 March 31, 2024 or 2022.2023.

The following table summarizes the Company's stock option activity for the periods presented.

	Nine Months Ended				Three Months Ended			
	September 30, 2023		September 30, 2022		March 31, 2024		March 31, 2023	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Options:								
Outstanding, beginning of period	419,65		420,25					
Granted	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	8,750	8.09	—	—
Expired	—	—	—	—	500	8.00	—	—
Forfeited			10.8					
	—	—	600	6	—	—	—	—
Options outstanding, end of period	419,65		419,65		402,650	\$ 9.81	419,650	\$ 9.79
	0	\$ 9.79	0	\$ 9.79				

Options exercisable, end of period	419,65 0	416,24 \$ 9.79	402,650 \$ 9.81	419,650 \$ 9.79
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The aggregate intrinsic value of stock options outstanding (calculated as the amount by which the market value of underlying stock exceeds the exercise price of the option) was \$0.10.2 million and zero as of September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

### Restricted Stock

During the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, 57,300 55,300 shares and 45,938 57,300 shares, respectively, of restricted stock were granted. The Company recognizes the cost of services received in exchange for restricted stock awards based on the grant date closing price of the stock, with compensation expense recognized on a straight-line basis over the award's vesting period.

### 11. LEASES

The Bank and ALC are Company is involved in a number of operating leases, primarily for branch locations. Branch leases have remaining lease terms ranging from two years one year to six nine years, some of which include options to extend the leases for up to five years, and some of which include an option to terminate the lease within one year. The Bank Company also leases certain office facilities to third parties and classifies these leases as operating leases.

The following table provides a summary of the components of lease income and expense, as well as the reporting location in the interim condensed consolidated statements of operations, for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023:

Location in the Condensed Consolidated Statements of Operations					Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
in the Condensed Statement of Operations	Three Months Ended	Nine Months Ended				
dated Statement nts of Operations	Sep tember 30, 2022	Sep tember 30, 2022	Sep tember 30, 2022	Sep tember 30, 2022		
	(Dollars in Thousands s)	(Dollars in Thousands s)				
					(Dollars in Thousands)	

Operating lease income	Lease income	\$ 257	\$ 234
(1) Net occupancy and equipment expenses	Lease income	\$ 257	\$ 234
Operating lease equipment expenses	Net occupancy and equipment	\$ 156	\$ 108
(2) Net			

(1) Operating lease income includes rental income from owned properties

(2) Includes short-term lease costs. For the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, short term lease costs were nominal in amount.

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The following table provides supplemental lease information for operating leases on the interim condensed consolidated balance sheet as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**:

	Location in the Condensed Consolidated Balance Sheet			Location in the Condensed Consolidated Balance Sheet		
	Consolidated Balance Sheet	September 30, 2023	December 31, 2022	Consolidated Balance Sheet	March 31, 2024	December 31, 2023
		(Dollars in Thousands)	(Dollars in Thousands)		(Dollars in Thousands)	(Dollars in Thousands)
Operating lease right-of-use assets	Other assets	\$ 1,605	\$ 1,883	Other assets	\$ 1,940	\$ 2,019
Operating lease liabilities	Other liabilities	\$ 1,684	\$ 1,961	Other liabilities	\$ 1,980	\$ 2,055
Weighted-average remaining lease term (in years)		4.28	5.03		6.12	6.37

Weighted-average discount rate	3.30 %	3.30 %	4.10 %	4.10 %
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The following table provides supplemental lease information for the interim condensed consolidated statements of cash flows for the nine three months ended September 30, 2023 March 31, 2024 and 2022; 2023:

	Nine Months Ended		Three Months Ended	
	September	September	March 31,	March 31,
	30, 2023	30, 2022	2024	2023
	(Dollars in Thousands)	(Dollars in Thousands)	(Dollars in Thousands)	(Dollars in Thousands)
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 323	\$ 320	\$ 98	\$ 107

The following table is a schedule of remaining future minimum lease payments for operating leases that had an initial or remaining non-cancellable lease term in excess of one year as of September 30, 2023 March 31, 2024:

	Minimum Rental Payments		Minimum Rental Payments	
	(Dollars in Thousands)		(Dollars in Thousands)	
2023	\$	109		
2024		438	\$	297
2025		339		295
2026		346		302
2027		353		308
2028 and thereafter		238		
2028				269
2029 and thereafter				930
Total future minimum lease payments		1,823	\$	2,401
Less: Imputed interest		139		421
Total operating lease liabilities	\$	1,684	\$	1,980

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed uses derivative instruments to certain risks arising from both its business operations minimize unplanned fluctuations in earnings and economic conditions. The Company manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including cash flows caused by interest rate liquidity and credit volatility. The Company's interest rate risk primarily by managing management strategy generally

involves modifying the amount, sources and duration repricing characteristics of certain balance sheet assets and liabilities. In the normal course of business, liabilities to mitigate negative impacts on net interest margin and/or cash flow. Derivative instruments utilized by the Company also uses generally include interest rate swap contracts or option contracts, such as caps and floors. The fair values of derivative financial instruments to add stability to interest income are carried in the Company's consolidated balance sheets as assets and/or expense and to manage its exposure to movements in interest rates. The Company does not use derivatives for trading or speculative purposes and only generally enters into transactions that have a qualifying hedge relationship. The Company's hedging strategies involving interest rate When hedge accounting is used, derivatives are classified as either cash flow hedges or fair value hedges. The Company may also enter into derivative contracts that are not designated as hedges depending upon the rate characteristic of the hedged item. in order to mitigate economic risks or risks associated with volatility in connection with customer derivative transactions.

As of March 31, 2024, the Company had active hedges in place that were receiving hedge accounting treatment, as well as derivative instruments that were not receiving hedge accounting treatment. In addition, the Company's net interest income continued to benefit from certain derivative contracts that were terminated in prior periods, but that were originally designated for hedge accounting purposes. In accordance with original hedge relationship, unrealized gains recorded upon termination are being reclassified to interest income or interest expense over the original terms of the derivative contracts.

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#### Active Hedges

In June 2023, the Company entered into three forward interest rate swap contracts on a pool of fixed rate indirect consumer loans. Each of the three hedge contracts has a \$10.0 million notional amount, or \$30 million in aggregate. The interest rate swaps were designated as derivative instruments in fair value hedges with the objective of effectively converting a pool of fixed rate indirect consumer loans to a variable rate throughout the hedge durations in accordance with the portfolio layer method. Under the contractual arrangements, for each swap, the Company pays a fixed interest rate and receives a variable interest rate based on the Secured Overnight Financing Rate (SOFR), SOFR, on the notional amounts, with monthly net settlements. The

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swap contracts are scheduled to terminate at different maturity dates, including December 1, 2025, December 1, 2026, and June 1, 2027. As of both March 31, 2024 and December 31, 2023, the hedge relationships for all three swaps were designated effective, and accordingly, changes in the fair value of the contracts were included as adjustment to the underlying fixed rate consumer loans.

#### Hedges Terminated in 2023

In February 2023, the Company voluntarily terminated four interest rates swap agreements contracts, each with notional amounts of \$10.0 million, or an aggregate amount of \$40.0 million. Two of the swaps were previously designated as cash flow hedges, while two were previously designated as fair value hedges. The termination of the cash flow hedges resulted in a net unrealized gain totaling \$1.1 million. The unrealized gain was initially recorded in accumulated other comprehensive income, net of tax, and is being reclassified to reduce interest expense over the original terms of the swap contracts. Remaining unrealized gains associated with these terminated cash flow hedges totaled \$0.5 million and \$0.7 million as of March 31, 2024 and December 31, 2023, respectively.

The termination of the fair value hedges resulted in an unrealized gain totaling \$1.0 million which is being reclassified to increase interest income over the original terms of the swap contracts. Remaining unrealized gains associated with the fair value hedges totaled \$0.3 million and \$0.4 million as of March 31, 2024 and December 31, 2023, respectively.

#### *Hedge Terminated in 2022*

In May 2022, the Company voluntarily terminated one interest rate swap agreement contract with a notional amount of \$10.0 million. The swap was previously designated as a cash flow hedge. The termination resulted in a net unrealized gain of \$0.3 million. The unrealized gain was initially recorded in accumulated other comprehensive income, net of tax, and is being reclassified to reduce interest expense over the original term of the swap contract. Remaining unrealized gains associated with this terminated cash flow hedge totaled \$48 thousand and \$84 thousand as of March 31, 2024 and December 31, 2023, respectively.

#### *Derivatives Not Designated as Hedging Instruments*

In March 2024, the Company entered into two interest rate floor contracts, each with a notional amount of \$25 million, or \$50 million in aggregate. The interest rate floor contracts were not designated as hedging instruments, and accordingly, changes in the fair value of the contracts are being recorded as non-interest income or expense. Both of the derivative contracts are intended to mitigate the Company's risk of loss associated with shifts downward in the SOFR. One of the contracts will provide cash flow to the Company in the event the SOFR decreases below 4.0% before the contract's designated termination date of March 27, 2025, while the other contract will provide cash flow to the Company in the event the SOFR decreases below 3.0% prior to the contract's designated termination date of March 27, 2026.

#### **Presentation**

The table below reflects the notional amount and fair value of active derivative instruments included on the Company's consolidated balance sheets on a net basis as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

	As of September 30, 2023		As of December 31, 2022			
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value		
		Gain (Loss) (1)		Gain (Loss) (1)		
		(Dollars in Thousands)				
<b>Derivatives designated as hedging instruments:</b>						
Fair value hedges:						
Interest rate swaps related to fixed rate commercial real estate loans	\$ —	\$ —	\$ 20,000	\$ 1,101		
Interest rate swaps related to fixed rate indirect consumer loans	30,000	537	—	—		
Total fair value hedges		537		1,101		
Cash flow hedges:						
Interest rate swaps related to variable-rate money market deposit accounts	—	—	\$ 20,000	\$ 1,205		
Interest rate swaps related to FHLB advances	—	—	—	—		

Total cash flow hedges	—	1,205
Total hedges designated as hedging instruments, net	\$ 537	\$ 2,306

	As of March 31, 2024		As of December 31, 2023	
	Estimated		Estimated	
	Notional Amount	Fair Value Gain (Loss) <sup>(1)</sup>	Notional Amount	Fair Value Gain (Loss) <sup>(1)</sup>
(Dollars in Thousands)				
Derivatives designated as hedging instruments:				
Fair value hedges:				
Interest rate swaps related to fixed rate indirect consumer loans	\$ 30,000	\$ 273	\$ 30,000	\$ (119)
Total fair value hedges		273		(119)
Total derivatives designated as hedging instruments, net		273		(119)
Derivatives not designated as hedging instruments:				
Interest rate floors	\$ 50,000	75	\$ —	\$ —
Total derivatives not designated as hedging instruments, net		\$ 75		\$ —

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<sup>(1)</sup> Derivatives in a gain position are recorded as other assets and derivatives in a loss position are recorded as other liabilities in the consolidated balance sheets.

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The following table presents the net effects of derivative hedging instruments on the Company's interim condensed consolidated statements of operations for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023. The effects, which include the reclassification of unrealized gains on terminated swap contracts, are presented as either an increase or decrease to income before income taxes in the relevant caption of the Company's interim condensed consolidated statements of operations.

		Loca tion in Locatio n in the Con Conden sed		Three Months ed		Nine Months Ended		Location in the Condensed	Three Months Ended			
		Con	Se	Se	Se	Se	Se		Three Months Ended			
Consolidated Statement of Oper ations		State ment of Oper ations	State ment of Oper ations	State ment of Oper ations	State ment of Oper ations	State ment of Oper ations	State ment of Oper ations	Location in the Condensed	Three Months Ended			
		20	20	20	20	20	20	Consolidated Statements of Operations	March 31, 2024	March 31, 2023		
			23	22	23	22						
		(Dollars in Thousa nds)		(Dollars in Thousa nds)				(Dollars in Thousands)				
Interest income	Interest and fees on loan s	2	6	(	5	4	0	Interest and fees on loans	\$	260	\$	168
Interest expense	Interest on deposit s	1	3	(	2	2	7	Interest on deposits		120		136
Interest expense	Interest on borrow ings	3	3	0	6	6	8	Interest on borrowings		36		36

Non-interest expense	Other non-interest expense	(24)	-
Net increase in expense (decrease in income before taxes) to income before income taxes	\$ 392	\$ 340	

### 13. OTHER OPERATING INCOME AND EXPENSE

#### Other Operating Income

Other operating income for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 consisted of the following:

	Three Months Ended				Nine Months Ended			
	September 30, 2022		September 30, 2023		March 31, 2023		March 31, 2024	
	2022	2023	2022	2023	2023	2024	2023	2024
	3	2	3	2022				
	(Dollars in Thousands)				(Dollars in Thousands)			
Bank-owned life insurance			3					
	11	11	4					
	\$ 9	\$ 2	\$ 8	\$ 335	\$	131	\$	114
ATM fee income			3					
	12	1						
	93	5	5	403		85		112

Gain on sales of premises and equipment and other assets	27	1				
	18	8	8	301		
Other income		2				
		0				
	64	52	8	195		
Total		8			93	
	29	56	8	1,2		87
	\$ 4	\$ 7	\$ 9	\$ 34	\$ 309	\$ 313

### Other Operating Expense

Other operating expense for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
(Dollars in Thousands)				
Postage, stationery and supplies	\$ 151	\$ 164	\$ 472	\$ 469
Telephone/data communication	128	159	479	518
Collection and recoveries	71	57	252	176
Directors fees	94	98	284	301
Software amortization	86	133	313	331
Other real estate/foreclosure expense, net	9	(5)	30	(320)
Other expense	545	568	1,769	1,629
Total	\$ 1,084	\$ 1,174	\$ 3,599	\$ 3,104
Three Months Ended				
March 31,				
2024				
(Dollars in Thousands)				
Postage, stationery and supplies	\$ 178	\$ 161		
Telephone/data communication	192	169		
Collection and recoveries	26	91		
Directors fees	96	95		
Software amortization	90	124		
Other real estate/foreclosure expense, net	31	6		
Other expense	377	574		

Total	\$ 990	\$ 1,220
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Other expense for the three months ended March 31, 2024 was reduced by \$0.2 million associated with recovery of check fraud losses that were incurred during the fourth quarter of 2023.

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#### 14. GUARANTEES, COMMITMENTS AND CONTINGENCIES

##### Credit

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making these commitments as it does for on-balance sheet instruments.

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, letters of credit and others, that are not included in the consolidated financial statements. The financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. A summary of these commitments and contingent liabilities is presented below:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(Dollars in Thousands)		(Dollars in Thousands)	
	Standby letters of credit	\$ —	\$ —	\$ —
Standby performance letters of credit	\$ 664	\$ 556	\$ 651	\$ 669
Commitments to extend credit	\$ 155,614	\$ 186,169	\$ 125,335	\$ 141,121

Standby letters of credit and standby performance letters of credit are contingent commitments issued by the Bank generally to guarantee the performance of a customer to a third party. The Bank has recourse against the customer for any amount that it is required to pay to a third party under a standby letter of credit or standby performance letter of credit. Revenues are recognized over the lives of the standby letters of credit and standby performance letters of credit. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the potential amounts of future payments that the Bank could be required to make under its standby letters of credit and standby performance letters of credit, which represent the Bank's total credit risk in these categories, are included in the table above.

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

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

In accordance with the adoption of ASC 326 on January 1, 2023, At each quarter end date, the Company recorded a reserve calculates an allowance for unfunded lending commitments, of \$0.3 million. The reserve, which is included in other liabilities including those described in the Company's balance sheet, table above. The Company's allowance for unfunded commitments totaled \$0.5 million and \$0.6 million as of September 30, 2023, March 31, 2024 and December 31, 2023, respectively. Additional discussion related to the calculation of the reserve allowance for unfunded commitments is included in Note 4.4, "Loans and Leases".

### **Self-Insurance**

The Company is self-insured for a significant portion of employee health benefits. However, the Company maintains stop-loss coverage with third-party insurers to limit the Company's individual claim and total exposure related to self-insurance. The Company estimates a liability for the ultimate costs to settle known claims, as well as claims incurred but not yet reported, as of the balance sheet date. The Company's recorded estimated liability for self-insurance is based on the insurance companies' incurred loss estimates and management's judgment, including assumptions and evaluation of factors related to the frequency and severity of claims, the Company's claims development history and the Company's claims settlement practices. The assessment of loss contingencies and self-insurance reserves is a highly subjective process that requires judgments about future events. Contingencies are reviewed at least quarterly to determine the adequacy of self-insurance accruals. Self-insurance accruals totaled \$0.2 million as of both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. The ultimate settlement of loss contingencies and self-insurance reserves may differ significantly from amounts accrued in the Company's consolidated financial statements.

### **Litigation**

The Company is party to certain ordinary course litigation from time to time, and the Company intends to vigorously defend itself in all such litigation. In the opinion of the Company, based on review and consultation with legal counsel, the outcome of such ordinary course litigation should not have a material adverse effect on the Company's consolidated financial statements or results of operations.

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## 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows a uniform framework for estimating and classifying the fair value of financial instruments. The assumptions used in the Company's estimation of the fair value of the Company's financial instruments are detailed below. The following disclosures should not be considered a representation of the liquidation value of the Company, but rather represent a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

### **Fair Value Hierarchy**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. In determining fair value, the Company uses various methods, including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair value. Assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange or Nasdaq. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 — Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Company rarely transfers assets and liabilities measured at fair value between Level 1 and Level 2 measurements. Trading account assets and securities available-for-sale may be periodically transferred to or from Level 3 valuation based on management's conclusion regarding the best method of pricing for an individual security. Such transfers are accounted for as if they occurred at the beginning of a reporting period. There were no such transfers during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** or the year ended **December 31, 2022** **December 31, 2023**.

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### **Fair Value Measurements on a Recurring Basis**

## Securities Available-for-Sale

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. Level 2 securities include **government sponsored** agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. Level 2 fair values are obtained from quoted prices of securities with similar characteristics. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

## Interest Rate Derivative Agreements Contracts

Interest rate derivative **agreements** **contracts** are used by the Company to mitigate risk associated with changes in interest rates. The fair value of these **agreements** **contracts** is based on information obtained from third-party financial institutions. This information is periodically evaluated by the Company and, as necessary, corroborated against other third-party valuations. The Company classifies these derivative assets within Level 2 of the valuation hierarchy.

The following table presents assets and liabilities measured at fair value on a recurring basis as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

	Fair Value Measurements as of September 30, 2023 Using				Fair Value Measurements as of March 31, 2024 Using			
	Quote d Prices in Active Market	Signifi s For Identic Totals At	Signifi cant Other Obser vable	Signifi cant Unobs ervable	Quoted Prices in Active	Significant Markets For Assets	Other Inputs	Significant Unobservable Inputs
	September 30, 2023 (Level 1)	(Level 2)	(Level 3)	March 31, 2024 (Level 1)	(Level 2)	(Level 3)		
(Dollars in Thousands)								
Investment securities, available-for-sale								
Mortgage-backed securities:								
Residential		37,0						
	\$ 37,000	\$ —	\$ 00	\$ —	\$ 42,553	\$ —	\$ 42,553	\$ —
Commercial		9,50						
	9,500	—	0	—	14,279	—	14,279	—

Obligations of U.S. government-sponsored agencies	10,932	—	32	—	11,009	—	11,009	—
Obligations of states and political subdivisions	1,543	—	3	—	1,545	—	1,545	—
Corporate notes	14,681	—	81	—	14,843	—	14,843	—
U.S. Treasury securities	52,895	95	—	—	41,151	41,151	—	—
Other assets - derivatives	537	—	537	—				
Interest rate derivative contracts:								
Other assets - interest rate swaps					273	—	273	—
Other assets - interest rate floors					75	—	75	—

	Fair Value Measurements as of December 31, 2022 Using					Fair Value Measurements as of December 31, 2023 Using				
	Quote d Prices in Active Market	Signifi cant For Identic At	Signifi cant Other Obser vable	Signifi cant Unobs ervable	Quoted Prices in Active Markets	Significant For Identical Assets	Significant Other Observable Inputs	Significant Inputs	Significant Unobservable Inputs	Significant Inputs
	Totals	Decem ber 31, 2022	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Totals	December 31, 2023	(Level 1)	(Level 2)	(Level 3)
	(Dollars in Thousands)					(Dollars in Thousands)				
Investment securities, available-for-sale										
Mortgage-backed securities:										
Residential	43,95		\$ 7	\$ —	\$ 57	\$ —	\$ 44,728	\$ —	\$ 44,728	\$ —

Commercial	11,69	—	11,6	—	9,040	—	9,040	—
	3	—	93	—				
Obligations of U.S. government-sponsored agencies			4,27					
	4,270	—	0	—	11,280	—	11,280	—
Obligations of states and political subdivisions			2,07					
	2,072	—	2	—	1,558	—	1,558	—
Corporate notes	15,92	—	14,9	—				
	1	—	21	1,000	14,957		14,957	—
U.S. Treasury securities	52,88	52,88						
	2	2	—	—	54,002	54,002	—	—
Other assets - derivatives			2,30					
	2,306	—	6	—				
Interest rate derivative contracts:								
Other liabilities - interest rate swaps					119	—	119	—

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## Fair Value Measurements on a Non-recurring Basis

### Collateral Dependent

#### Impaired Loans

##### Collateral dependent

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due under the contractual terms of the loan agreement. These loans are measured at evaluated separately in accordance with the fair value of Company's policies for calculating the collateral securing the loan less estimated selling costs, allowance for credit losses on loans and leases. The fair value of real estate collateral impaired loans with specific allocations of the allowance for credit losses on loans and leases is determined based on real estate appraisals, which are generally typically based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Appraised values are discounted by management for estimated costs to sell and may be discounted further based on management's knowledge of comparable properties which the collateral, changes in market conditions since the most recent appraisal and/or management's knowledge of the borrower and the borrower's business. Such adjustments are then adjusted usually significant and typically result in

Level 3 classification of the inputs for property specific factors, determining fair value. Non-real estate collateral may be valued using an appraisal, net book value is per the borrower's financial statements, or aging reports, adjusted or discounted based on various sources, including third party asset valuations and internally determined values based on cost, adjusted for depreciation and other judgmentally determined discount factors. Collateral dependent management's historical knowledge of the borrower's business, resulting in a Level 3 fair value classification. Impaired loans are classified as Level 3 of the valuation hierarchy due to the unobservable inputs used in determining their fair value, such as collateral values evaluated on a quarterly basis for additional impairment and the borrower's underlying financial condition, adjusted accordingly.

#### *OREO and Other Assets Held-for-Sale*

OREO consists of properties obtained through foreclosure or in satisfaction of loans and is recorded at net realizable value, less estimated cost to sell. Estimates of fair value are generally based on third-party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes discounted based on management's knowledge of the property and/or changes in market conditions from the date of the most recent appraisal. Such discounts are typically significant unobservable inputs for determining fair value.

As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, included within OREO were certain assets that were formerly included as premises and equipment but have been removed from service, and as of the balance sheet date, were designated as assets to be disposed of by sale. These include assets associated with branches of the **Bank and ALC Company** that have been closed. When an asset is designated as held-for-sale, the Company ceases depreciation of the asset, and the asset is recorded at the lower of its carrying amount or fair value less estimated cost to sell. Estimates of fair value are generally based on third-party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes discounted based on management's knowledge of the property and/or changes in market conditions from the date of the most recent appraisal. Such discounts are typically unobservable inputs for determining fair value.

The following table presents the balances of impaired loans, OREO and other assets held-for-sale measured at fair value on a non-recurring basis as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**:

<b>Fair Value Measurements as of September 30, 2023 Using</b>	<b>Fair Value Measurements as of March 31, 2024 Using</b>
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Quote d Prices in Active Market Signifi s For cant Signifi Identic Other ant				Quoted Prices in Active Significant Markets For Other Significant			
Totals	al	Obser	Unobse	Totals At	Identical	Observable	Unobservable
At	Asset	vable	rvable	March 31,	Assets	Inputs	Inputs
Septem ber 30, 2023	(Level 1)	(Level 2)	(Level 3)	2024	(Level 1)	(Level 2)	(Level 3)
(Dollars in Thousands)							
Collateral dependent loans	\$ 62	\$ —	\$ —	\$ 62	\$ —	\$ —	\$ —
Impaired loans							
OREO and other assets held-for-sale	617	—	—	617	572	—	—
<b>Fair Value Measurements as of December 31, 2022 Using</b>							
Quote d Prices in Active Signifi Market cant Signifi s For Other ant				Quoted Prices in Active Significant Markets For Other Significant			
Totals	Identic	Obser	Unobse	Totals At	Identical	Observable	Unobservable
At	al	vable	rvable	December 31,	Assets	Inputs	Inputs
Decem ber 31, 2022	(Level 1)	(Level 2)	(Level 3)	2023	(Level 1)	(Level 2)	(Level 3)
(Dollars in Thousands)							
Impaired loans	\$ 108	\$ —	\$ —	\$ 108	\$ 51	\$ —	\$ —
OREO and other assets held-for-sale	686	—	—	686	602	—	—

## Non-recurring Fair Value Measurements Using Significant Unobservable Inputs

The following table presents information regarding assets and liabilities measured at fair value using significant unobservable inputs (Level 3) as of September 30, 2023 March 31, 2024 and December 31, 2023. The table includes the valuation techniques and the significant unobservable inputs utilized. The range of each unobservable input and the weighted average within the range utilized as of September 30, 2023 March 31, 2024 and December 31, 2023 are both included. Following the table is a description of the valuation technique and the sensitivity of the technique to changes in the significant unobservable input.

Level 3 Significant Unobservable Input Assumptions					
				Quantitative Range of Unobservable Inputs	
	Fair Value	Valuation Technique	Unobservable Input	(Weighted Average)	
	March 31, 2024				
	(Dollars in Thousands)				
Non-recurring fair value measurements:					
Impaired loans		Multiple data points, including discount to appraised value of collateral based on recent market activity	Appraisal comparability adjustment (discount)	9%-10%	9.5%
OREO and other assets held-for-sale	\$ 572	Discount to appraised value of property based on recent market activity for sales of similar properties	Appraisal comparability adjustment (discount)	9%-10%	9.5%

  

Level 3 Significant Unobservable Input Assumptions					
				Quantitative Range of Unobservable Inputs	
	Fair Value	Valuation Technique	Unobservable Input	(Weighted Average)	
	December				
	31, 2023				

(Dollars in Thousands )						
Non-recurring fair value measurements:						
Impaired loans			Multiple data points, including discount to appraised value of collateral based on recent market activity		Appraisal comparability adjustment (discount)	9%-10% 9.5%
	\$ 51					
OREO and other assets held-for-sale			Discount to appraised value of property based on recent market activity for sales of similar properties		Appraisal comparability adjustment (discount)	9%-10% 9.5%
	\$ 602					
<b>Level 3 Significant Unobservable Input Assumptions</b>						
Fair Value September 30, 2023 (Dollars in Thousands)						
Valuation Technique Unobservable Input (Weighted Average)						
Non-recurring fair value measurements:						
Collateral dependent loans			Multiple data points, including discount to appraised value of collateral based on recent market activity		Appraisal comparability adjustment (discount)	9%-10% (9.5%)
	\$ 62					

OREO and other assets held-for-sale	\$ 617	Discount to appraised value of property based on recent market activity for sales of similar properties	Appraisal comparability adjustment (discount)	9%-10% (9.5%)
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## Collateral Dependent

### Impaired Loans

**Collateral dependent** Impaired loans are valued based on multiple data points indicating the fair value for each loan. The primary data point is the appraisal value of the underlying collateral, to which a discount is applied. Management establishes this discount or comparability adjustment based on recent sales of similar property types. As liquidity in the market increases or decreases, the comparability adjustment and the resulting asset valuation are impacted.

## OREO

OREO under a binding contract for sale is valued based on contract price. If no sales contract is pending for a specific property, management establishes a comparability adjustment to the appraised value based on historical activity, considering proceeds for properties sold versus the corresponding appraised value. Increases or decreases in realization for properties sold impact the comparability adjustment for similar assets remaining on the balance sheet.

## Other Assets Held-for-Sale

Assets designated as held-for-sale that are under a binding contract are valued based on the contract price. If no sales contract is pending for a specific property, management establishes a comparability adjustment to the appraised value based on historical activity, considering proceeds for properties sold versus the corresponding appraised value. Increases or decreases in realization for properties sold impact the comparability adjustment for similar assets remaining on the balance sheet.

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## Fair Value of Financial Instruments

### ASC Topic 825

Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate. The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

**Cash, due from banks and federal funds sold:** The carrying amount of cash, due from banks and federal funds sold approximates fair value.

**Federal Home Loan Bank stock:** Based on the redemption provision of the FHLB, the stock has no quoted market value and is carried at cost.

**Investment securities:** Fair values of investment securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on market prices of comparable instruments.

**Derivative instruments:** The fair value of derivative instruments is based on information obtained from a third-party financial institution. This information is periodically evaluated by the Company and, as necessary, corroborated against other third-party information.

**Accrued interest receivable and payable:** The carrying amount of accrued interest approximates fair value.

**Loans, net:** The fair value of loans is estimated on an exit price basis incorporating contractual cash flow, prepayment discount spreads, credit loss and liquidity premiums.

**Demand and savings deposits:** The fair values of demand deposits are equal to the carrying value of such deposits. Demand deposits include non-interest-bearing demand deposits, savings accounts, NOW accounts and money market demand accounts.

**Time deposits:** The fair values of relatively short-term time deposits are equal to their carrying values. Discounted cash flows are used to value long-term time deposits. The discount rate used is based on interest rates currently offered by the Company on comparable deposits as to amount and term.

**Short-term borrowings:** These borrowings may consist of federal funds purchased, securities sold under agreements to repurchase and the floating rate borrowings from the FHLB account. Due to the short-term nature of these borrowings, fair values approximate carrying values.

**Long-term debt:** The fair value of this debt is estimated using discounted cash flows based on the Company's current incremental borrowing rate for similar types of borrowing arrangements as of the determination date.

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**Off-balance sheet instruments:** The carrying amount of commitments to extend credit and standby letters of credit approximates fair value. The carrying amount of the off-balance sheet financial instruments is based on fees currently charged to enter into such agreements.

The estimated fair value and related carrying or notional amounts, as well as the level within the fair value hierarchy, of the Company's financial instruments as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** were as

follows:

	September 30, 2023					March 31, 2024				
	Carrying	Estimated	Carrying	Estimated						
	Amount	Fair Value	Level 1	Level 2	Level 3	Amount	Fair Value	Level 1	Level 2	Level 3
	(Dollars in Thousands)					(Dollars in Thousands)				
<b>Assets:</b>										
Cash and cash equivalents		66,66,1	66,1	12		\$ 60,242	\$ 60,242	\$ 60,242	\$ —	\$ —
Investment securities available-for-sale		52,126,	126,	89	73,6	551	125,380	125,380	41,151	84,229
Investment securities held-to-maturity		1,181,27	1,18		1,18	2	983	921	—	921
Federal funds sold		1,141,14	1,14		1,14	3	5,532	5,532	—	5,532
Federal Home Loan Bank stock		2,152,15	2,15		2,15	1	1,494	1,494	—	1,494
Loans, net of allowance for credit losses		769,803,	769,		769,	466	812,505	771,776	—	771,776
Other assets - derivatives		537	537	—	537	—				
Other assets - interest rate swaps							273	273	—	273
Other assets - interest rate floors							75	75	—	75
<b>Liabilities:</b>										
Deposits		829,927,	829,		829,	435	943,268	873,743	—	873,743
Short-term borrowings		30,000	30,0		30,0	—	15,000	15,000	—	15,000
Long-term borrowings		9,2210,7	9,22		9,22	—	10,817	9,560	—	9,560
		6	81	—	6	—				

	December 31, 2022					December 31, 2023						
	Carr ying	Estim ated	Amo unt	Fair Value	Lev el 1	Leve l 2	Leve l 3	Carrying Amount	Estimated Fair Value	Lev el 1	Lev el 2	Lev el 3
	(Dollars in Thousands)					(Dollars in Thousands)						
<b>Assets:</b>												
Cash and cash equivalents				30,								
	30,	30,1	15									
	\$ 152	\$ 52	\$ 2	\$ —	\$ —			\$ 50,279	\$ 50,279	\$ 50,279	\$ —	
Investment securities available-for-sale		130		52,								
	,79	130,	88	76,	1,0							
	5	795	2	913	00			135,565	135,565	54,002	81,563	
Investment securities held-to-maturity		1,8	1,76		1,7							
	62	9	—	69	—			1,104	1,041	—	1,041	
Federal funds sold		1,7	1,76		1,7							
	68	8	—	68	—			9,475	9,475	—	9,475	
Federal Home Loan Bank stock		1,3	1,35		1,3							
	59	9	—	—	59			1,201	1,201	—	1,201	
Loans, net of allowance for loan and lease losses		764			730							
	,45	730,			,96							
	1	961	—	—	1			811,284	773,800	—	773,800	
Other assets - derivatives		2,3	2,30		2,3							
	06	6	—	06	—							
<b>Liabilities:</b>												
Deposits		870			788							
	,02	788,			,16							
	5	161	—	1	—			950,191	882,746	—	882,746	
Short-term borrowings		20,	20,0		20,							
	038	38	—	038	—			10,000	10,000	—	10,000	
Long-term borrowings		10,	9,70		9,7							
	726	2		02				10,799	9,814		9,814	
Other liabilities - interest rate swaps								119	119		119	

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

### DESCRIPTION OF THE BUSINESS

First US Bancshares, Inc., a Delaware corporation ("Bancshares" and, together with its **subsidiaries, subsidiary**, the "Company"), is a bank holding company **with its principal offices formed in Birmingham, Alabama, 1983** registered under the Bank Holding Company Act of 1956, as amended (the "BCHA"). Bancshares operates one **commercial** wholly owned banking subsidiary, First US Bank, **an** Alabama banking corporation (the "Bank"). As of September 30, 2023, Bancshares and the Bank are headquartered in Birmingham, Alabama. Previously, the Bank operated **two** wholly owned subsidiaries, Acceptance Loan Company and **served** FUSB Reinsurance, Inc., both of which were legally dissolved in 2023, and all remaining assets and liabilities of these entities were transferred to the Bank prior to December 31, 2023.

The Bank conducts a general commercial banking business and offers banking services such as demand, savings, individual retirement account and time deposits, personal and commercial loans, safe deposit box services and remote deposit capture. The Bank **operates and serves** its customers through 15 **full-service** banking offices located in Birmingham, Butler, Calera, Centreville, Gilbertown, Grove Hill, Harpersville, Jackson, Thomasville, Tuscaloosa and Woodstock, Alabama; Knoxville and Powell, Tennessee; and Rose Hill, Virginia. In addition, the Bank **operates** Virginia; as well as loan production offices in Mobile, Alabama and the Chattanooga, Tennessee area. The Bank provides a wide range of commercial banking services to small- and medium-sized businesses, property managers, business executives, professionals and other individuals. The Bank also performs indirect lending through third-party retailers and currently conducts this lending in 17 states, including Alabama, Arkansas, Florida, Georgia, Indiana, Iowa, Kansas, Kentucky, Mississippi, Missouri, Nebraska, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia. The Bank **owns all of** is the stock of Acceptance Loan Company, Inc., an Alabama corporation ("ALC"). ALC is a finance company headquartered in Mobile, Alabama. During the third quarter of 2021, ALC ceased new business development Company's only reportable operating segment upon which management makes decisions regarding how to allocate resources and permanently closed its 20 branch lending locations in Alabama and Mississippi to the public. Through the third quarter of 2023, ALC continued to service its remaining portfolio of loans from its headquarters. Effective October 1, 2023, all of ALC's remaining loans were sold to the Bank in an intercompany transaction. The Bank intends to manage the remaining portfolio through final resolution. **assess** performance.

Delivery of the best possible financial services to customers remains an overall operational focus of the Company. The Company recognizes that attention to detail and responsiveness to customers' desires are critical to customer satisfaction. The Company continues to upgrade technology, both in its financial services and in the training of its **156** **154** full-time equivalent employees (as of **September 30, 2023** **March 31, 2024**), to ensure customer satisfaction and convenience.

The preparation of the Company's consolidated financial statements requires management to make subjective judgments associated with **critical accounting** estimates. These estimates are necessary to comply with accounting principles generally accepted in the United States of America ("U.S. GAAP") and general banking practices. **These estimates include** accounting for the allowance for credit losses, the right-of-use asset and lease liability, the value of other real estate owned and certain collateral-dependent loans, consideration related to goodwill impairment testing and deferred tax asset valuation. A description of **these** the Company's **critical** accounting estimates, which significantly affect the determination of the Company's consolidated financial position, results of operations and cash flows, is set forth in **Note 2, "Summary of Significant Part II, Item 7 - Critical Accounting Policies," of the Notes to**

**Consolidated Financial Statements Estimates** in the Company's **2022** **2023** Form **10-K**, as amended in 2023 by the adoption of ASC **326, Measurement of Credit Losses on Financial Instruments**, as discussed in Note 2, "Basis of Presentation," in the Notes to the **Interim Consolidated Financial Statements** included in this Quarterly Report on Form **10-Q**. **10-K**.

The emphasis of this discussion is a comparison of assets, liabilities and shareholders' equity as of **September 30, 2023** **March 31, 2024** to **December 31, 2022** **December 31, 2023**, while comparing income and expense for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**. All yields and ratios presented and discussed herein are recorded and presented on the accrual basis and not on the tax-equivalent basis, unless otherwise indicated.

This information should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes appearing elsewhere in this report and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in **Bancshares' the Company's 2022** **2023** Form **10-K**. As used in the following discussion, the words "we," "us," "our" and the "Company" refer to Bancshares and its consolidated subsidiaries, unless the context indicates otherwise.

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## RECENT MARKET CONDITIONS

During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, the banking industry **saw** **continued to be impacted by** economic volatility that has persisted since early 2023. Following a **significant level** reduction in January 2024, the U.S. inflation rate increased in the latter two months of **volatility due** **the** quarter and remained elevated over the Federal Reserve Bank's ("FRB") long run target of 2%. Throughout the first quarter of 2024, the FRB maintained the target federal funds rate in a range from 5.25% to **notable banking failures** 5.50% where it has remained since July 2023. Recent economic indicators suggested that **began** **economic** activity in the U.S. continued to expand at a solid pace during the first quarter of **2023**, **2024** and job gains remained strong. In assessing monetary policy, FRB officials continued to indicate a commitment to maintaining the federal funds target range until greater confidence is gained that inflation is moving sustainably toward 2%.

U.S. Treasury rates increased notably during the first quarter of 2024 due to changing sentiment in interest rate expectations, and as of March 31, 2024, the U.S. Treasury curve remained inverted. Competitive pressures in the banking industry also remained elevated due to the higher interest rate environment, particularly with respect to deposit pricing. The elevated interest rate environment, combined with higher inflation levels sustained for a longer period of time, could put additional strain on borrowers, as well as **ongoing** increases in interest rates that have generally led to contraction of net interest margin throughout the industry. While year-over-year inflation levels have eased from 40-year highs that were reached during 2022, inflation remains elevated over the Federal Reserve Bank's ("FRB") long run target. In its ongoing effort to reduce inflation levels, the FRB has continued to raise the target federal funds rate, with four additional increases of 25 basis points during the first nine months of 2023. As of September 30, 2023, the target federal funds rate was a range of 5.25% to 5.50%.

As interest rates have increased, competitive pressures have also increased, particularly related to deposit pricing. Due primarily to the rising cost of funding, net interest margin compressed significantly throughout the banking industry during the nine months ended September 30, 2023. The substantial pace and magnitude of changes in interest rates introduced a higher level of uncertainty throughout the industry, and the impact that such change will have on the Company's future operating results cannot be predicted with certainty. During this still-ongoing and still-volatile transition period, the yield curve has become significantly inverted at times, indicating substantial economic uncertainty, including the possibility of economic recession. The unusual yield curve effects, including inversion, may continue. Further, if the rate of inflation remains elevated or accelerates, the Company's operations could be impacted by, among other things, accelerating **cost** **own** **costs** of goods and services, including the cost of salaries and benefits.

Additionally, These uncertainties, combined with ongoing geopolitical uncertainty, provide a difficult operating environment throughout the banking industry. Management continues to carefully navigate the Company's borrowers course through these challenges, and believes the Company is well positioned to respond effectively in multiple operating environments. However, additional

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inflationary pressure, higher interest rates, and a fiercely competitive environment could be negatively impacted by rising expense levels, leading to deterioration of credit quality and/or reductions in input downward pressure on the Company's lending activity. The higher interest rate environment has also led to unrealized losses in the Company's investment portfolio, which consists primarily positioning and results of fixed-rate instruments. operations.

## EXECUTIVE OVERVIEW

### Strategic Focus and Impact on Asset Quality

During the third quarter of 2021, the Company executed strategic initiatives that were designed to improve operating efficiency, focus the Company's loan growth activities, and fortify asset quality. The most significant component of these initiatives was the cessation of new business at ALC. This initiative, which included the closure of ALC's branch lending locations in September 2021, served to significantly decrease the Company's non-interest expense, and has led to substantial improvement in the Company's consumer lending asset quality as ALC's remaining loans pay down. Historically, ALC's loans have produced significantly higher levels of charge-offs than the Bank's other loan portfolios.

As of September 30, 2023, remaining loans at ALC totaled \$12.1 million, compared to \$20.2 million as of December 31, 2022. In 2023, as ALC's loans have continued to decrease, the Company has realized substantially lower levels of net charge-offs on the portfolio compared to prior periods. Net charge-offs on ALC loans totaled \$0.3 million, or 2.09% of average loans, during the nine months ended September 30, 2023, compared to \$1.5 million, or 6.38% of average loans, during the nine months ended September 30, 2022. As of September 30, 2023, \$0.2 million, or 1.3% of ALC's loans, were past due, compared to \$0.8 million, or 3.8%, as of December 31, 2022.

Effective October 1, 2023, the Company sold all of ALC's remaining loans to the Bank in an intercompany transaction. The Bank will continue to manage the remaining loans in the portfolio through final resolution. It is expected that all other assets and liabilities of ALC will be transferred to the Bank via an intercompany transaction by the end 2023.

### Financial Highlights

The Company earned net income of \$2.1 million, or \$0.33 \$0.34 per diluted common share, during the three months ended September 30, 2023 March 31, 2024, compared to \$1.9 million \$2.1 million, or \$0.29 \$0.33 per diluted common share, for the three months ended September 30, 2022 March 31, 2023. For the nine months ended September 30, 2023, net income totaled \$6.2 million, or \$0.97 per diluted common share, compared to \$4.6 million, or \$0.71 per diluted common share, for the nine months ended September 30, 2022.

Summarized condensed consolidated statements of operations are included below for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023.

	Three Months Ended		Nine Months Ended		Three Months Ended			
	Septem ber 30, 2023	Septem ber 30, 2022	Septem ber 30, 2023	Septem ber 30, 2022	March 31, 2024		March 31, 2023	
	(Dollars in Thousands, Except Per Share Data)							
Interest income	13,90 \$ 2	10,67 \$ 0	38,86 \$ 1	29,57 \$ 6			14,277 \$	11,960
Interest expense			10,62 4,419 1,155 1	2,526		5,237		2,526
Net interest income			28,24 9,483 9,515 0	27,05 0		9,040		9,434
Provision for credit losses	184 1,165	753	2,781		—			269
Net interest income after provision for credit losses		27,48 9,299 8,350 7	24,26 9 0		9,040			9,165
Non-interest income	837 1,088	2,465	2,773		865			829
Non-interest expense		21,74 7,319 7,032 0	20,96 6		7,147			7,270
Income before income taxes	2,817 704	2,406 546	8,212 2,004	6,076 1,440		2,758 651		2,724 652
Provision for income taxes					\$ 2,107	\$		\$ 2,072
Net income	\$ 2,113 \$ 0.35	\$ 1,860 \$ 0.31	\$ 6,208 \$ 1.04	\$ 4,636 \$ 0.76	\$ 0.36	\$		\$ 0.35
Diluted net income per share	\$ 0.33	\$ 0.29	\$ 0.97	\$ 0.71	\$ 0.34	\$		\$ 0.33
Dividends per share	\$ 0.05	\$ 0.03	\$ 0.15	\$ 0.09	\$ 0.05	\$		\$ 0.05

The discussion that follows summarizes the most significant activity that drove changes in the Company's net income operating results during the nine three months ended September 30, 2023 March 31, 2024, as compared to the nine three months ended September 30, 2022 March 31, 2023.

#### Net Interest Income and Margin

Net interest income increased decreased by \$1.2 million \$0.4 million, or 4.4% 4.2%, comparing the nine three months ended September 30, 2023 March 31, 2024 to the nine three months ended September 30, 2022. The increase was primarily attributable to growth March 31, 2023. The reduction in loans which averaged \$795.0 million during the nine months ended September 30, 2023,

compared to \$713.0 million during the nine months ended September 30, 2022. The average rate on earning assets net interest income resulted from net interest margin compression that totaled 5.41% for the nine months ended September 30, 2023, compared to 4.37% for the nine months ended September 30, 2022.

While yields on earning assets increased significantly in 2023, rates on 48 basis points as interest-bearing liabilities increased repriced at a faster pace causing than interest-bearing assets comparing the two periods. While margin compression. compression has persisted since the first quarter of 2023, it slowed substantially in the first quarter of 2024 due to continued repricing of earning assets at more favorable rates, combined with growth in average earning assets and efforts to hold deposit expense at reasonable levels. Net interest margin was 3.93% for 3.65% in the nine months ended September 30, 2023, first quarter of 2024, compared to 4.00% for 3.67% in the nine months ended September 30, 2022. The Company's total funding costs, including the cost fourth quarter of interest 2023, and non-interest deposits, as well as borrowings, increased to 1.53% during the nine months ended September 30, 2023, compared to 0.39% during the nine months ended September 30, 2022. 4.13% in first quarter of 2023.

#### Provision for Credit Losses

The No net provision for credit losses was \$0.8 million recorded during the nine three months ended September 30, 2023 March 31, 2024, compared to \$2.8 million \$0.3 million during the nine three months ended September 30, 2022. The reduction resulted primarily from reduced charge-off levels comparing the two periods, mostly related to ALC's loans which continued to reduce following implementation of the cessation of business strategy. The Company's net charge-offs totaled \$0.7 million during the nine months ended September 30, 2023, compared to \$1.7 million during the nine months ended September 30, 2022. The reduction included a decrease of \$1.3 million in net charge-offs associated with ALC's portfolio, partially offset by an increase in net charge-offs associated with the indirect consumer portfolio totaling \$0.3 million March 31, 2023. The Company's determination that no net charge-offs credit loss provisioning was required during the first quarter of 2024 was due to modest overall loan growth during the quarter, combined with a decrease in both unfunded lending commitments and indirect loan fundings. The indirect portfolio generally requires higher allowances for credit losses than most other loan categories in the Company's portfolio. As of March 31, 2024, the Company's allowance for credit losses on loans and leases as a percentage of average total loans totaled 0.12% during the nine months ended September 30, 2023 was 1.27%, compared to 0.24% during the nine months ended September 30, 2022 1.28% as of December 31, 2023.

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#### Non-interest Income

Non-interest income totaled \$2.5 million remained relatively consistent, totaling \$0.9 million and \$0.8 million for the nine three months ended September 30, 2023, compared to \$2.8 million for the nine months ended September 30, 2022. The reduction resulted primarily from gains on the sale of premises March 31, 2024 and equipment that occurred during the third quarter of 2022, but were not repeated in 2023. 2023, respectively.

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## Non-interest Expense

Non-interest expense totaled \$21.7 million \$7.1 million for the nine three months ended September 30, 2023 March 31, 2024, compared to \$21.0 million \$7.3 million for the nine three months ended September 30, 2022 March 31, 2023. The increase decrease comparing the two periods resulted primarily from nonrecurring gains on the sale recovery of OREO properties that offset non-interest expense check fraud losses, combined with an overall reduction in 2022, but were not repeated salaries and benefits due to reductions in 2023. staffing levels attained through strategic initiatives implemented by the Company in prior years.

## Balance Sheet Levels Total Assets

As of September 30, 2023 March 31, 2024, the Company's assets totaled \$1,065.2 million \$1,070.5 million, compared to \$994.7 million \$1,072.9 million as of December 31, 2022 December 31, 2023, an increase a decrease of 7.1% 0.2%.

### Loans

Total loans increased by \$41.4 million \$1.2 million, or 5.4% 0.1%, as of September 30, 2023 March 31, 2024, compared to December 31, 2022 December 31, 2023. The loan volume increases during the first nine months of 2023 were increase was driven primarily by growth in indirect consumer and commercial multi-family construction loans. Growth in indirect consumer lending, was consistent with continued demand for the products collateralized through the Company's indirect program, including recreational vehicles, campers, boats, horse trailers and cargo trailers. Indirect loan growth tends to be seasonal due to its emphasis on outdoor recreational products, with growth typically more pronounced in the spring and early summer months. The increase in commercial construction (construction, land development and other land loans) was primarily attributable to continued growth in construction fundings on multi-family residential projects. The loan growth during the first nine months of 2023 which was partially offset by decreases reductions in other loan categories.

### Asset Quality

Nonperforming assets, including loans in non-accrual status and OREO, totaled \$3.0 million as of both March 31, 2024 and December 31, 2023. As a percentage of total assets, nonperforming assets totaled 0.28% as of both March 31, 2024 and December 31, 2023. Annualized net charge-offs as a percentage of average loans during the residential real estate (including 1-4 family and multi-family) and commercial and industrial categories, as well as first quarter of 2024 totaled 0.09%, compared to 0.11% during the direct consumer and branch retail consumer categories. Loans in direct consumer and branch retail were expected to decrease as they comprise the majority corresponding period of ALC's remaining loan balances. 2023.

### Deposit Growth

Deposits totaled \$927.0 million \$943.3 million as of September 30, 2023 March 31, 2024, compared to \$870.0 million \$950.2 million as of December 31, 2022 December 31, 2023. The year-to-date growth included an increase of \$69.2 million decrease was due primarily to reductions in non-interest bearing and interest-bearing deposits, direct deposit accounts, partially offset by a decrease of \$12.2 million increases in noninterest-bearing interest-bearing time deposits. The year-to-date shift to interest-bearing time deposits is consistent with deposit holders seeking to maximize interest earnings, on their accounts. In addition, deposit growth for a condition that has persisted in the first nine months of 2023 included growth of \$30.2 million current interest rate environment. The increase in interest-bearing time deposits was partially offset by a reduction in wholesale brokered time deposits that were acquired in order to further enhance the Company's liquidity position following the bank failures that began of \$5.5 million during the first quarter of 2023. As of September 30, 2023, core three months ended March 31, 2024. Core deposits, which exclude time deposits of \$250 thousand

or more and all wholesale brokered deposits, totaled \$786.8 million \$807.3 million, or 84.9% of total deposits, compared to \$778.1 million, or 89.4% 85.6% of total deposits, as of December 31, 2022 March 31, 2024, compared to \$819.5 million, or 86.2% of total deposits, as of December 31, 2023.

#### *Deployment of Funds*

Management seeks to deploy earning assets in an efficient manner to maximize net interest income while maintaining appropriate levels As of liquidity to protect March 31, 2024, the safety and soundness of the organization. Management's decisions during the first nine months of 2023, particularly following the bank failures that occurred, were focused on maintaining the Company's strong liquidity position. As part of this focus, management elected to hold higher levels of Company held cash and cash equivalents. Cash and cash equivalents totaled \$66.1 million federal funds sold balances totaling \$65.8 million, or 6.1% of total assets, compared to \$59.8 million, or 5.6% of total assets, as of September 30, 2023, compared to \$30.2 million as of December 31, 2022 December 31, 2023. Investment securities, including both the available-for-sale and held-to-maturity portfolios, totaled \$127.8 million \$126.4 million as of September 30, 2023 March 31, 2024, compared to \$132.7 million \$136.7 million as of December 31, 2022 December 31, 2023. The decrease in investment securities resulted from the maturity of U.S. treasury bonds that occurred late in the first quarter. Subsequent to March 31, 2024, these funds were reinvested in higher yielding securities. As of March 31, 2024, the expected average life of securities in the investment portfolio was 4.2 years, compared to 3.9 years as of September 30, 2023, compared December 31, 2023. In the current elevated interest rate environment, management continues to 3.5 years as of December 31, 2022. Management will continue to evaluate seek opportunities to invest excess reconfigure the investment portfolio with higher yielding assets as cash balances within the context of anticipated loan and deposit growth and current liquidity needs. flows become available.

#### *Shareholders' Equity*

Shareholders' equity increased by \$2.3 million \$1.7 million, or 2.7% 1.9%, as of September 30, 2023 March 31, 2024, compared to December 31, 2022 December 31, 2023. The increase in shareholders' equity during the first quarter resulted primarily from earnings, net of dividends paid, partially offset by paid. In addition, the CECL transition adjustment which reduced retained earnings by \$1.8 million, net rising interest rate environment, particularly during the latter part of tax, as well as the first quarter of 2024, led to a net decrease in valuations of investment securities and drove an overall increase in accumulated other comprehensive loss of \$1.7 million associated with fair value declines \$0.2 million during the quarter. Securities valuation decreases were, in part, mitigated by the available-for-sale investment portfolio and reclassification adjustments associated with terminated maturity of lower interest rate swaps. securities that totaled \$13.0 million during the three months ended March 31, 2024.

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#### *Cash Dividends*

The Company declared cash dividends totaling \$0.15 \$0.05 per share on its common stock during both the nine three months ended September 30, 2023, compared to cash dividends totaling \$0.09 per share on its common stock during the nine months ended September 30, 2022, March 31, 2024 and 2023.

### *Regulatory Capital*

During the ~~nine~~ three months ended ~~September 30, 2023~~ ~~March 31, 2024~~, the Bank continued to maintain capital ratios at higher levels than required to be considered a “well-capitalized” institution under applicable banking regulations. As of ~~September 30, 2023~~ ~~March 31, 2024~~, the Bank’s common equity Tier 1 capital and Tier 1 risk-based capital ratios were each ~~10.81%~~ ~~11.11%~~. Its total capital ratio was ~~12.06%~~ ~~12.32%~~, and its Tier 1 leverage ratio was ~~9.09%~~ ~~9.37%~~.

### *Liquidity*

As of ~~September 30, 2023~~ ~~March 31, 2024~~, the Company continued to maintain excess funding capacity sufficient to provide adequate liquidity for loan growth, capital expenditures and ongoing operations. The Company benefits from a strong core deposit base, a liquid investment securities portfolio and access to funding from a variety of sources, including federal funds lines ~~FHLB~~ with other banking institutions, Federal Home Loan Bank (FHLB) advances, the discount window of the Federal Reserve Bank (FRB), and brokered deposits. ~~In addition,~~

### *Interest Rate Risk Management*

During the three months ended March 31, 2024, the Company ~~has access~~ purchased \$50 million notional in interest rate floors to the FRB’s discount window and its Bank Term Funding Program (BTFP), the latter assist in mitigating a portion of which was established in response to the recent liquidity events that have occurred in the banking industry. Both the discount window and the BTFP allow borrowing on pledged collateral that includes eligible investment securities and, in certain circumstances, eligible loans. In response to heightened liquidity concerns in the banking industry, during 2023 management undertook measures designed to enhance the Company’s liquidity position. These procedures included holding higher levels of on-balance sheet cash, as well as enhancing the availability of off-balance sheet borrowing capacity. ~~risk in down rate scenarios.~~

### *Anticipated Banking Center Growth*

As part of these efforts, the Company’s overall growth strategy, progress was made during the ~~third~~ three months ended March 31, 2024 toward the anticipated opening of a new banking center in the Bearden area of Knoxville, Tennessee that will replace the Bank’s existing Knoxville-Bearden location. It is anticipated that the new location, which is expected to open during the second quarter of 2023, 2024, will provide more favorable exposure to potential customers, while at the same time improving access to most of the Bank’s existing customers in the area. In addition, during the three months ended March 31, 2024, the Company completed purchased a banking center office in Daphne, Alabama from another financial institution. This location is expected to serve as the ~~establishment~~ Bank’s initial deposit gathering facility in the Daphne/Mobile area. It is anticipated that the location will open to the public in the fourth quarter of additional borrowing capacity through 2024. As of March 31, 2024, both the FRB’s discount window, primarily via the pledging of the majority of the Company’s indirect loan portfolio as collateral. Due to these efforts, the Company’s immediate borrowing capacity based on collateral pledged through the discount window increased to \$146.6 million as of September 30, 2023, compared to \$1.2 million as of December 31, 2022. ~~anticipated~~ Knoxville and Daphne banking centers had received all necessary regulatory approvals.

## **RESULTS OF OPERATIONS**

### **Net Interest Income**

Net interest income is calculated as the difference between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates, as well as volume and mix changes in earning assets

and interest-bearing liabilities, can materially impact net interest income. The Company's earning assets consist of loans, taxable and tax-exempt investments, Federal Home Loan Bank stock, federal funds sold by the Bank and interest-bearing deposits in banks. Interest-bearing liabilities consist of interest-bearing demand deposits and savings and time deposits, as well as short- and long-term borrowings.

The following tables show the average balances of each principal category of assets, liabilities and shareholders' equity for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**. Additionally, the tables provide an analysis of interest revenue or expense associated with each category, along with the accompanying yield or rate percentage. Net interest margin is calculated for each period presented as net interest income divided by average total interest-earning assets.

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	Three Months Ended			Three Months Ended			Three Months Ended			Three Months Ended																			
	September 30,		Ended	September 30,		Ended	March 31, 2024		Three Months Ended	March 31, 2023		Three Months Ended																	
	2023	2022	An	An	nua	nua	Av	lize	Av	lize	era	Yiel	ge	Yiel	Bal	d/	Ba	d/	an	Inte	Rat	an	Inte	Rat	ce	rest	e %	ce	rest
<b>ASSETS</b>																													
Interest-earning assets:																													
Total loans	8						7																						
(Note A)	2						3																						
	1,						,																						
	2	12					1	9,																					
	9	,5	6.				4	75	5.																				
	\$ 4	\$ 84	08%	\$ 5	\$ 0				21%																				

Total											
loans (1)						\$ 821,984	\$ 12,853	6.29 %	\$ 770,871	\$ 10,982	5.78 %
Taxable			1								
investment	1		4								
securities	2		8								
	3,		,								
	2		9								
	9	68	2.	6	74	1.					
	0	2	19 %	4	8	99 %	133,689	862	2.59 %	129,840	680
Tax-exempt			2								
investment	1,		,								
securities	0		3								
	3		1.	2		1.					
	7	3	15 %	2	8	37 %	1,030	3	1.17 %	1,059	3
Federal			1								
Home	1,		,								
Loan	0		8								
Bank	0		8.	0		3.					
stock	1	21	32 %	8	17	73 %	914	18	7.92 %	1,634	28
Federal			1								
funds	1,		,								
sold	0		9								
	6		5.	8		2.					
	9	14	20 %	4	11	20 %	6,607	89	5.42 %	2,591	29
Interest-bearing			2								
deposits	4,		3								
in banks	4,		,								
	3		1								
	7	59	5.	6	13	2.					
	9	8	35 %	6	6	33 %	33,004	452	5.51 %	20,526	238
Total			9								
interest	9		2								
-	9		1								
earnin	2,		,								
g	0	13	3	10							
assets	7	,9	5.	8	,6	4.					
	0	02	56 %	9	70	59 %	997,228	14,277	5.76 %	926,521	11,960



Time deposits	3	0	2	9	3,	2,	3	6	34	0.	4	6	03 %	1	0	64 %	336,822	2,963	3.54 %	270,780	1,389	2.08 %		
Total interest	7	6	6	7	4																			
- bearing deposit	5,	,	2	22	2.	1	86	0.	6	4	52 %	9	2	16 %	6	4	52 %	798,503	5,099	2.57 %	692,040	2,137	1.25 %	
Noninterest-bearing demand deposits	1,	,	3	3	6	8	1	1	—	—	—	1	—	—	2	—	—	149,613	—	—	166,548	—	—	
Total deposits	9	4	3	6,	7	6,	4,	8	22	1.	86	0.	7	2	79 %	8	4	40 %	948,116	5,099	2.16 %	858,588	2,137	1.01 %
Borrowings	1	5	9,	4	4	6	19	4.	2	29	2.	8	7	01 %	7	1	54 %	14,545	138	3.82 %	37,221	389	4.24 %	
Total funding costs	9	9	5	6,	3	1	4,	2	41	1.	15	0.	5	9	83 %	5	5	51 %	962,661	5,237	2.19 %	895,809	2,526	1.14 %

Other noninterest bearing liabilities	1,026,646	2,212	10,712	9,693
Shareholders' equity	8,668,089	8,089		
	6,668,089	6,089		
	8,668,089	8,089		
	9,889	8,889		
	7,5	5	91,645	83,837
Total	1,103,339	9,889		
	3,339	5		
	3,339	9		
	0	8		
	0	5		
	\$ 5	\$ 2	\$ 1,065,018	\$ 989,339
Net interest income (Note B)	9,485	9,511		
Net interest income (2)	3.48	4.51	\$ 9,040	\$ 9,434
Net interest margin	79%	10%	3.65%	4.13%

Not —(1)

e

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A

For the purpose of these computations, non-accruing loans are included in the average loan amounts outstanding. These loans averaged \$2.0 million \$2.4 million and \$1.7 million \$1.5 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Not —(2)

e

■

B

Loan fees are included in interest amounts presented. Loan fees totaled \$0.1 million for both the three months ended September 30, 2023 March 31, 2024 and 2022, 2023.

	Nine Months Ended			Nine Months Ended		
	September 30, 2023			September 30, 2022		
	Average Balance	Interest	Annualized Yield/Rate %	Average Balance	Interest	Annualized Yield/Rate %
<b>ASSETS</b>						
Interest-earning assets:						
Total loans (Note A)	\$ 795,033	\$ 35,330	5.94 %	\$ 713,015	\$ 27,339	5.13 %
Taxable investment securities	126,341	2,033	2.15 %	142,425	1,896	1.78 %
Tax-exempt investment securities	1,048	10	1.28 %	2,543	31	1.63 %
Federal Home Loan Bank stock	1,347	75	7.44 %	1,165	33	3.79 %
Federal funds sold	1,415	51	4.82 %	853	12	1.88 %
Interest-bearing deposits in banks	35,437	1,362	5.14 %	45,133	265	0.79 %
Total interest-earning assets	<u>960,621</u>	<u>38,861</u>	<u>5.41 %</u>	<u>905,134</u>	<u>29,576</u>	<u>4.37 %</u>
Noninterest-earning assets	61,484			65,379		
Total	<u>1,022,1</u>					
	<u><u>\$ 05</u></u>			<u><u>\$ 970,513</u></u>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
Demand deposits	\$ 216,445	\$ 557	0.34 %	\$ 249,183	\$ 438	0.24 %
Savings deposits	221,293	3,279	1.98 %	206,294	693	0.45 %
Time deposits	297,708	5,845	2.62 %	208,621	833	0.53 %
Total interest-bearing deposits	<u>735,446</u>	<u>9,681</u>	<u>1.76 %</u>	<u>664,098</u>	<u>1,964</u>	<u>0.40 %</u>
Noninterest-bearing demand deposits	162,084	—	—	182,862	—	—
Total deposits	<u>897,530</u>	<u>9,681</u>	<u>1.44 %</u>	<u>846,960</u>	<u>1,964</u>	<u>0.31 %</u>
Borrowings	29,375	940	4.28 %	27,994	562	2.68 %

Total funding costs	926,905	10,621	1.53 %	874,954	2,526	0.39 %
Other noninterest-bearing liabilities	9,722			8,833		
Shareholders' equity	85,478			86,726		
Total	1,022,1					
	\$ 05			\$ 970,513		
Net interest income (Note B)		\$ 28,240			\$ 27,050	
Net interest margin			3.93 %			4.00 %

**Note A** — For the purpose of these computations, non-accruing loans are included in the average loan amounts outstanding. These loans averaged \$1.5 million and \$1.8 million for the nine months ended September 30, 2023 and 2022, respectively.

**Note B** — Loan fees are included in interest amounts presented. Loan fees totaled \$0.4 million for both the nine months ended September 30, 2023 and 2022.

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The following tables summarize the impact of variances in volume and rate of interest-earning assets and interest-bearing liabilities on components of net interest income.

Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023		Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
Compared to Three Months Ended September 30, 2022		Compared to Nine Months Ended September 30, 2022		Compared to Three Months Ended March 31, 2023		Compared to Three Months Ended March 31, 2022	
Increase (Decrease)		Increase (Decrease)		Increase (Decrease)		Increase (Decrease)	
Due to Change In:		Due to Change In:		Due to Change In:		Due to Change In:	
Aver age		Ave rage		Average		Average	
Vol um	Yiel d/Ra	Vol um	Yiel d/Ra	Volume	Yield/Rate	Net	Volume
e	te	Net	e	te	Net		
(Dollars in Thousands)				(Dollars in Thousands)			

Interest earned on:																
Total loans		1,022,182	3,146	7,942	\$ 5	\$ 09	\$ 4	\$ 5	\$ 46	\$ 1	\$ 728	\$ 1,143	\$ 1,871	\$ 942	\$ 1,193	\$ 2,135
Taxable investment securities		(122)	(61)	353	(1)	(2)	(6)	(1)	(35)	(7)	20	162	182	(2)	197	195
Tax-exempt investment securities		(4)	(1)	(5)	(8)	(1)	(3)	(1)	—	—	—	(7)	(2)	(9)		
Federal Home Loan Bank stock		(8)	12	4	5	37	2	4	(12)	2	(10)	7	13	20		
Federal funds sold		(5)	8	3	8	31	9	3	45	15	60	—	29	29		
Interest-bearing deposits in banks		122	33	6	(5)	1,146	9	1,109	145	69	214	(19)	228	209		
Total interest - earning assets		1,020	2,282	2,864	2,916	5	9,215	9,215	926	1,391	2,317	921	1,658	2,579		
Interest expense on:																
Demand deposits		(27)	21	(6)	8	7	9	1	(22)	79	57	(12)	81	69		

Savings deposits		1,1	2	5	2,5	8					
	5	1,1	2	5	2,5	8					
	4	74	8	0	36	6	190	1,141	1,331	(2)	415
Time deposits		2,1	1	3	5	0					
	8	1,9	3	5	4,6	1					
	6	50	6	6	56	2	339	1,235	1,574	71	1,069
Borrowings		(1,6)	(9	2	35	7					
	6	72	4)	8	0	8	(237)	(14)	(251)	125	107
Total interest											232
- bearing liabilities		3,2	2	3	7,7	9					
	4	17	4	6	19	5	270	2,441	2,711	182	1,672
Interest income											1,854
Increase (decrease) in net interest income											
	9	5	(98	(3	9	30	1				
	7	7	9)	2)	3	3)	0	\$ 656	\$ (1,050)	\$ (394)	\$ 739
								\$ (14)	\$ 725		

Interest income increased by **\$9.3 million** **\$2.3 million**, comparing the **nine three** months ended **September 30, 2023** **March 31, 2024** to the **nine three** months ended **September 30, 2022** **March 31, 2023**. Of the increase, **\$6.4 million** **\$1.4 million** was attributable to higher average yields on interest-earning assets, while **\$2.9 million** **\$0.9 million** was attributable to growth in **average loan volume** **interest-earning assets** comparing the two periods. The increase in average yield was attributable to the rise in market interest rates that began in 2022, and has continued in 2023. The increase 2023 and held relatively consistent in **interest income associated with loan volume increases** was attributable to loan growth during the nine months ended September 30, 2023 of \$41.4 million, or 5.4%. The increase in interest income was partially offset by an increase in interest expense of **\$8.1 million** **\$2.7 million**, comparing the **nine three** months ended **September 30, 2023** **March 31, 2024** to the **nine three** months ended **September 30, 2022** **March 31, 2023**. Of the increase, **\$7.7 million** **\$2.4 million** was attributable to the rise in market interest rates, while **\$0.4 million** **\$0.3 million** was attributable to growth in **interest-bearing liabilities**, primarily **savings and time deposits** and **borrowings**. During the latter half of 2022 and through the first nine months of 2023, the Company has focused a portion of its deposit marketing efforts on growth in time deposits of various maturities in an effort to increase the predictability of funding cash flows. Additionally, the Company has utilized wholesale brokered deposits and short-term FHLB borrowings to a larger extent, particularly during the nine months ended September 30, 2023, in order to enhance the Company's on-balance sheet liquidity position. Efforts to enhance the Company's on-balance sheet liquidity were taken primarily as precautionary measures in the wake of liquidity events that impacted the banking industry during 2023.

The rising market interest rate environment has had, and continues to have, a significant impact on the Company and the banking industry in general. Beginning in March 2022 and through **September 30, 2023**, **July 2023**, the FRB raised the federal funds rate by a

total of 525 basis points. Statements by FRB officials have indicated that further the FRB remains committed to maintaining the federal funds rate at this level until greater confidence is gained that inflation is moving sustainably toward the FRB's long-run goal of 2%. Due to the pace of interest rate increases are possible that occurred in the period from March 2022 to address ongoing inflationary pressures. While the Company has generally been positioned to benefit from the rising interest rate environment that has occurred, July 2023, the Company's net interest margin began to decline during the nine months ended September 30, 2023 declined in 2023 as the cost of interest-bearing liabilities increased at a faster pace than interest-earning assets. Further, in connection with While net interest margin continued to decline during the liquidity events that have occurred in three months ended March 31, 2024, the banking industry, pace of decline slowed to two basis points comparing the first quarter of 2024 to the fourth quarter of 2023. While this slowing of margin compression is notable, the sustained higher interest rate environment has continued to intensify competition for deposits has intensified significantly. within the Company's service territories during the first three months of 2024. This increased competition, coupled with the continued economic volatility, of the industry, has introduced additional adds uncertainty into the market. Should market interest rates continue to rise increase or reduce decrease at significant levels, the Company's net interest income could be negatively impacted.

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## Provision for Credit Losses

The No provision for credit losses was \$0.8 million recorded during the nine three months ended September 30, 2023 March 31, 2024, compared to \$2.8 million a provision \$0.3 million during the nine three months ended September 30, 2022 March 31, 2023. The year-to-date calculation of the provision for credit losses included a recovery of previously recorded credit losses on unfunded lending commitments that was fully offset by provisioning for credit losses on loans and leases. The Company's determination that no net credit loss provisioning was required during the three months ended March 31, 2024 was due to modest overall loan growth during the quarter, combined with a decrease in 2023 compared to 2022 both unfunded lending commitments and indirect loan fundings. The indirect portfolio generally requires higher allowances for credit losses than most other loan categories in the Company's portfolio. As of March 31, 2024, the Company's allowance for credit losses on loans and leases as a percentage of total loans was primarily the result of the cessation of business strategy at ALC, which has led to significantly reduced net charge-offs as ALC's loans have paid down. Net charge-offs on ALC loans totaled \$0.3 million, or 2.09% of average loans, during the nine months ended September 30, 2023 1.27%, compared to \$1.5 million, or 6.38% 1.28% as of average loans, during the nine months ended September 30, 2022 December 31, 2023.

While Net charge-offs were relatively consistent, totaling \$0.2 million for both the Company experienced improved charge-off metrics during the nine three months ended September 30, 2023, compared to March 31, 2024 and 2023. However, the nine months ended September 30, 2022, the ongoing timing of charge-offs, economic developments, and other factors that could impact the provision for credit losses cannot be fully predicted with certainty. Sustained levels of high inflation, combined with the recent rapid rise in market interest rates, could negatively impact the Company's borrowers, which could lead to increased provisions for credit losses in the future.

Effective January 1, 2023, the Company adopted the CECL model to account for credit losses on financial instruments, including loans and leases, unfunded commitments and held-to-maturity securities. The adoption of the CECL model resulted in a transition adjustment totaling \$2.4 million, increasing the Company's allowance for credit losses on loans and leases by \$2.1 million, and establishing a reserve for unfunded commitments of \$0.3 million. As of September 30, 2023, the Company's allowance for credit losses totaled 1.40% of total loans, compared to 1.22% as of December 31, 2022. While management believes that the allowance for credit losses on loans and leases, as well as the reserve for unfunded commitments, was sufficient to absorb life-of-loan credit losses based on circumstances existing as of the balance sheet date, combined with reasonable and supportable forecasts, the determination of the allowance is complex and requires judgment by management about the effects of matters that are inherently uncertain. Changing economic circumstances or forecasts, or changes in management's judgments and estimates, could result in additional credit loss expense in future periods.

### Non-Interest Income

Non-interest income represents fees and income derived from sources other than interest-earning assets. The following table presents the major components of non-interest income for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
			\$				\$	
	2023	2022	Change	% Change	2023	2022	Change	% Change
(Dollars in Thousands)								(Dollars in Thousands)
Service charges and other fees on deposit accounts	\$ 302	\$ 311	\$ (9)	(2.9)%	\$ 869	\$ 904	\$ (35)	(3.9)%
Bank-owned life insurance	119	112	7	6.3%	348	335	13	3.9%
Gain on sales of premises and equipment and other assets	18	278	(260)	(93.5)%	18	301	(283)	(94.0)%
Lease income	241	210	31	14.8%	707	635	72	11.3%
ATM fee income	93	125	(32)	(25.6)%	315	403	(88)	(21.8)%
Other income	64	52	12	23.1%	208	195	13	6.7%
<b>Total non-interest income</b>	<b>\$ 837</b>	<b>\$ 1,088</b>	<b>\$ (251)</b>	<b>(23.1)%</b>	<b>\$ 2,465</b>	<b>\$ 2,773</b>	<b>\$ (308)</b>	<b>(11.1)%</b>

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	Three Months Ended March 31,					
	2024		2023		\$ Change	
	(Dollars in Thousands)					
Service charges and other fees on deposit accounts	\$ 299	\$ 285	\$ 14			4.9 %
Bank-owned life insurance	131	114	17			14.9 %
Lease income	257	231	26			11.3 %
ATM fee income	85	112	(27)			(24.1)%
Other income	93	87	6			6.9 %
<b>Total non-interest income</b>	<b>\$ 865</b>	<b>\$ 829</b>	<b>\$ 36</b>			<b>4.3 %</b>

The Company's non-interest income **decreased** **increased** by **\$0.3 million** **\$36 thousand** comparing the **nine** **three** months ended **September 30, 2023** **March 31, 2024** to the **nine** **three** months ended **September 30, 2022** due primarily to gains on the sale of premises and equipment that occurred during the third quarter of 2022, but were not repeated in 2023. In recent periods, the Company's sources of non-interest revenue have not fluctuated significantly, with the exception of nonrecurring increases or decreases that have occurred from time to time due to gains or losses on sales of assets or other nonrecurring sources. The majority of the Company's sources of non-interest income are relatively stable and are not expected to change significantly in the near term. However, non-interest revenues earned from service charges and other fees on deposit accounts have generally declined in recent years for a number of reasons, including a changing regulatory environment associated with these types of revenues. Management continues to evaluate opportunities to add non-interest revenue streams or grow existing streams; however, significant growth in non-interest income is not expected in the near term. **March 31, 2023.**

### Non-Interest Expense

Non-interest expense represents expenses incurred from sources other than interest-bearing liabilities. The following table presents the major components of non-interest expense for the periods indicated:

	Three Months Ended				Nine Months Ended				Three Months Ended March 31,					
	September 30,		September 30,		Ch		Ch		2024		2023		\$ Change	% Change
	\$	%	\$	%	2020	2020	an	ang	2023	2023	an	ang		
	Ch	Ch	Ch	Ch										
	2023	2022	ge	e	3	2	ge	e	2024	2023	2023	2022	\$ Change	% Change
	(Dollars in	(Dollars in			(Dollars in	(Dollars in							(Dollars in Thousands)	
	Thousands)	Thousands)			Thousands)	Thousands)							(Dollars in Thousands)	
Salaries and employee benefits	4	4			1	1								
	,	,			2,	2,								
	1	0	1		3	3								
	2	0	1	2.	1	8	(7	(0.						
	\$ 0	\$ 7	\$ 3	8%	\$ 0	\$ 9	\$ 9)	6%)	\$	4,088	\$	4,222	\$	(134)
														(3.2)%
Net occupancy and equipment	8	8			2,	2,								
	9	6	3	4.	6	4	1							
	7	1	6	2%	2	6	5	6.						
Computer services	4	4			5	8	7	4%		894		835		59
					1,	1,								7.1%
	6	1	4	11	1	2	9	7.						
	4	7	7	.3%	5	4	1	4%		443		421		22
														5.2%

Non-interest expense totaled \$7.1 million during the three months ended March 31, 2024, compared to \$7.3 million during the three months ended March 31, 2023. The Company's non-interest expense increased by 3.7% decrease comparing the nine months ended

September 30, 2023 to the nine months ended September 30, 2022. The majority of the increase corresponding periods resulted from nonrecurring gains on the sale recovery of properties that reduced other real/estate expense in 2022, but were not repeated in 2023. In addition, the Company has experienced increases in other expense categories commensurate with check fraud losses, combined with the inflationary environment. Increases in certain categories of non-interest expense were partially offset by decreases in other categories, most notably salaries and employee benefits which decreased by 0.6% comparing the nine months ended September 30, 2023 to the nine months ended September 30, 2022. The an overall reduction in salaries and benefits expense resulted from the impact of the reductions in staff levels attained through strategic initiatives undertaken implemented by the Company beginning in the third quarter of 2021 to, among prior years. These reductions were partially offset by increases in certain other things, improve the Company's operating efficiency. These initiatives reduced the Company's expense profile significantly in 2022 and, in some expense areas such categories as salaries and benefits, continued to benefit the Company during the nine months ended September 30, 2023. However, the current inflationary environment is expected to continue to put upward pressure on non-interest expenses. Accordingly, management will remain focused on efforts to streamline business processes in an effort to continue to improve the Company's overall efficiency levels, shown above.

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## Provision for Income Taxes

The provision for income taxes was \$2.0 million and \$1.4 million \$0.7 million for both the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively, and the Company's effective tax rate was 24.4% 23.6% and 23.7% 23.9%, respectively, for the same periods.

The effective tax rate is impacted by recurring items, such as changes in tax-exempt interest income earned from bank-qualified municipal bonds and loans and the cash surrender value of bank-owned life insurance. Management makes decisions about whether to invest in tax-exempt instruments on a case-by-case basis after considering a number of factors, including investment return, credit quality and the consistency of such investments with the Company's overall strategy. The Company's effective tax rate is expected to fluctuate commensurate with the level of these investments as compared to total pre-tax income.

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## BALANCE SHEET ANALYSIS

### Investment Securities

The investment securities portfolio is used by management to provide liquidity, to generate interest income and for use as collateral for public deposits and wholesale funding. Risk and return can be adjusted by altering the duration, composition and/or balance of the

portfolio. The expected average life of securities in the investment portfolio was 3.9 years and 3.5 years as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Available-for-sale securities are recorded at estimated fair value, with unrealized gains or losses recognized, net of taxes, in accumulated other comprehensive loss, a separate component of shareholders' equity. As of September 30, 2023 March 31, 2024, available-for-sale securities totaled \$126.6 million \$125.4 million, or 99.0% 99.2% of the total investment portfolio, compared to \$130.8 million \$135.6 million, or 98.6% 99.2% of the total investment portfolio, as of December 31, 2022 December 31, 2023. Available-for-sale securities consisted of residential and commercial mortgage-backed securities, U.S. Treasury securities, corporate bonds, obligations of U.S. government-sponsored agencies, and obligations of state and political subdivisions.

Held-to-maturity securities are recorded at amortized cost and represent securities that the Company both intends and has the ability to hold to maturity. As of September 30, 2023 March 31, 2024, held-to-maturity securities totaled \$1.3 million \$1.0 million, or 1.0% 0.8% of the total investment portfolio, compared to \$1.9 million \$1.1 million, or 1.4% 0.8% of the total investment portfolio, as of December 31, 2022 December 31, 2023. Held-to-maturity securities consisted of commercial mortgage-backed securities, obligations of U.S. government-sponsored agencies, and obligations of state and political subdivisions.

Due to Despite the increasing elevated interest rate environment, during the nine three months ended September 30, 2023 March 31, 2024, gross unrealized losses increased, particularly within decreased modestly due primarily to the Company's maturity of \$15.9 million in the available-for-sale portfolio. Gross unrealized losses in the available-for-sale portfolio totaled \$12.8 million \$10.0 million as of September 30, 2023 March 31, 2024, compared to \$11.1 million \$10.1 million as of December 31, 2022 December 31, 2023. Unrealized losses within the available-for-sale portfolio were recognized, net of tax, in accumulated other comprehensive loss.

As of September 30, 2023 March 31, 2024, the Company evaluated both the available-for-sale and held-to-maturity portfolios for credit loss in accordance with the revised accounting guidance of ASC 326. Based on these evaluations, management losses and concluded that no credit losses were included in either portfolio and that the unrealized losses in both portfolios resulted from the prevailing interest rate environment.

## Loans and Allowance for Credit Losses Leases

The Company's total loan portfolio increased by \$41.4 million \$1.2 million, or 5.4% 0.1%, as of September 30, 2023 March 31, 2024, compared to December 31, 2022 December 31, 2023. The tables below summarize loan balances by portfolio category, as well as the allowance for credit losses, as of the end of each of the most recent five quarters as of September 30, 2023 March 31, 2024:

Quarter Ended		Quarter Ended	
2023	2022	2024	2023

	Septe mber 30,	June 30,	Marc h 31,	Dece mber 31,	Septe mber 30,	March 31,	December 31,	September 30,	June 30,	March 31,				
	(Dollars in Thousands)					(Dollars in Thousands)								
<b>Real estate loans:</b>														
Construction, land development and other	90,0	91,	69,	53,9	36,2									
land loans	\$ 51	\$ 231	\$ 398	\$ 14	\$ 30	\$ 102,282	\$ 88,140	\$ 90,051	\$ 91,231	\$ 69,398				
Secured by 1-4 family residential properties	83,8	85,	86,	87,9	84,4									
	76	101	622	95	52	74,361	76,200	83,876	85,101	86,622				
Secured by multi-family residential properties	56,5	54,	63,	67,8	72,3									
	06	719	368	52	77	62,145	62,397	56,506	54,719	63,368				
Secured by non-farm, non-residential properties	204	198												
	199,	,27	,26	200,	200,									
	116	0	6	156	707	212,465	213,586	199,116	204,270	198,266				
Commercial and industrial loans	59,3	60,	65,	73,5	65,9									
	69	568	708	46	35	57,112	60,515	59,369	60,568	65,708				
<b>Consumer loans:</b>														
Direct	6,54	7,5	8,4	9,85	11,9									
	4	93	35	1	50	5,590	5,938	6,544	7,593	8,435				
Branch retail	9,64	10,	12,	13,9	15,8									
	8	830	222	92	78	7,794	8,670	9,648	10,830	12,222				
Indirect	300	271												
	310,	,18	,87	266,	262,									
	190	2	0	567	742	301,192	306,345	310,190	300,182	271,870				
Total loans	814	775												
	815,	,49	,88	773,	750,									
	\$ 300	\$ 4	\$ 9	\$ 873	\$ 271	822,941	821,791	815,300	814,494	775,889				
Allowance for credit losses	11,3	11,	11,	9,42	9,37									
	80	536	599	2	3	10,436	10,507	11,380	11,536	11,599				
Net loans	802	764												
	803,	,95	,29	764,	740,									
	\$ 920	\$ 8	\$ 0	\$ 451	\$ 898	\$ 812,505	\$ 811,284	\$ 803,920	\$ 802,958	\$ 764,290				

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## Allowance for Credit Losses on Loans and Leases

The tables below summarize changes in the allowance for credit losses on loans and leases for each of the most recent five quarters as of **September 30, 2023** **March 31, 2024**:

	Quarter Ended					Quarter Ended				
	2023			2022		2024		2023		
	Sept emb er 30,	Jun e 30,	Mar ch 31,	Dec emb er 31,	Sept emb er 30,	March 31,	December 31,	September 30,	June 30,	March 31,
	(Dollars in Thousands)					(Dollars in Thousands)				
Balance at beginning of period	11, 53	11 ,5	9, 42	9,3	8,7	\$ 10,507	\$ 11,380	\$ 11,536	\$ 11,599	\$ 9,422
Charge-offs:										
Real estate loans:										
Construction, land development and other land loans	—	—	—	—	—	—	—	—	—	—
Secured by 1-4 family residential properties	(41)	(7)	(8)	(0)	(3)	(2)	(1)	(41)	(47)	(8)
Secured by multi- family residential properties	—	—	—	—	—	—	—	—	—	—
Secured by non- farm, non- residential properties	—	—	—	—	—	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—	—	—	—	—	—
Consumer loans:										
Direct	(10 9)	(1 97)	(2 15)	(4 51)	(41 7)	(22)	(50)	(106)	(200)	(215)
Branch retail	(1 93)	(1 11)	(1 55)	(1 11)	(20 0)	(22)	(86)	(93)	(111)	(155)

Indirect	(19	(1	(1	(1	(13					
	8)	46)	56)	44)	6)	(344)	(432)	(199)	(145)	(156)
Total charge-offs	(44	(5	(5	(7	(75					
	1)	01)	34)	36)	6)	(390)	(569)	(439)	(503)	(534)
Recoveries	22	22	31	25	21					
	5	8	9	8	3					
Recoveries:										
Real estate loans:										
Construction, land development and other land loans						—	—	—	—	—
Secured by 1-4 family residential properties						23	14	16	7	16
Secured by multi- family residential properties						—	—	—	—	—
Secured by non- farm, non- residential properties						—	—	—	—	—
Commercial and industrial loans						—	—	—	—	—
Consumer loans:										
Direct						100	122	151	149	198
Branch retail						54	48	49	69	77
Indirect						30	9	7	5	28
Total recoveries						207	193	223	230	319
Net charge-offs	(21	(2	(2	(4	(54					
	6)	73)	15)	78)	3)	(183)	(376)	(216)	(273)	(215)
Impact of adopting CECL										
			2,							
			12							
	—	—	3	—	—	—	—	—	—	2,123
Provision for credit losses			21	26	52	1,1				
	60	0	9	7	65	112	(497)	60	210	269
Ending balance	11,	11	11							
	38	,5	,5	9,4	9,3					
	\$ 0	\$ 36	\$ 99	\$ 22	\$ 73	\$ 10,436	\$ 10,507	\$ 11,380	\$ 11,536	\$ 11,599

Ending balance as a percentage of loans	1.4 0 %	1. 42 %	1. 49 %	1.2 2 %	1.2 5 %	1.27 %	1.28 %	1.40 %	1.42 %	1.49 %
Net charge-offs as a percentage of average loans	0.1 0 %	0. 14 %	0. 11 %	0.2 5 %	0.2 9 %	0.09 %	0.19 %	0.10 %	0.14 %	0.11 %

**The adoption of CECL was most impactful Allowance for Credit Losses on the Company's consumer indirect loan portfolio due primarily to the extension of the loss estimate period to the estimated life of loans in this category. As of January 1, 2023, the estimated average remaining life of the indirect portfolio was between four and five years. As of September 30, 2023, the estimated average remaining life of the indirect portfolio was between five and six years. The branch retail portfolio, which represents indirect lending conducted by ALC, was similarly impacted by the transition to CECL. In addition, the Company's consumer portfolios were impacted by current economic forecasts using data provided by the Federal Reserve on inflation, unemployment, and the forecasted movement of interest rates.**

#### Reserve for Unfunded Lending Commitments

In connection with the adoption of the CECL accounting model, the Company also reserved approximately \$0.3 million in other liabilities for unfunded lending commitments. Unfunded lending commitments are off-balance sheet arrangements that represent unconditional commitments of the Company to lend to a borrower that are unfunded as of the balance sheet date. These may include unfunded loan commitments, standby letters of credit, and financial guarantees. The CECL accounting guidance requires that an estimate of expected credit loss be measured on commitments in which an entity is exposed to credit risk via a present contractual obligation to extend credit unless the obligation is unconditionally cancellable by the issuer. For the Company, unconditional lending commitments generally include unfunded term loan agreements, home equity lines of credit, lines of credit, and demand deposit account overdraft protection. As of **September 30, 2023** **March 31, 2024** and **December 31, 2023**, the Company's reserve for unfunded commitments, which is recorded in other liabilities in the Company's consolidated balance sheets, totaled \$0.5 million. No reserve for unfunded commitments was recorded by the Company as of December 31, 2022, and \$0.6 million, respectively.

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#### Nonperforming Assets

Nonperforming assets at the end of the five most recent quarters as of **September 30, 2023** **March 31, 2024** were as follows:

	Quarter Ended	
	2023	2022

	Septemb er 30,	June 30,	March 31,	Decembe r 31,	September 30,
	(Dollars in Thousands)				
Non-accrual loans	\$ 2,432	\$ 979	\$ 1,214	\$ 1,651	\$ 2,077
Other real estate owned	617	617	617	686	686
Total	<u>\$ 3,049</u>	<u>\$ 1,596</u>	<u>\$ 1,831</u>	<u>\$ 2,337</u>	<u>\$ 2,763</u>
Nonperforming assets as a percentage of total assets	<u>0.29 %</u>	<u>0.15 %</u>	<u>0.18 %</u>	<u>0.24 %</u>	<u>0.28 %</u>

The increase in nonperforming assets during the third quarter of 2023 resulted primarily from one commercial real estate loan that moved into non-accrual status during the quarter.

	Quarter Ended				
	2024		2023		
	March 31,	December 31,	Septembe r 30,	June 30,	March 31,
(Dollars in Thousands)					
Non-accrual loans	\$ 2,393	\$ 2,400	\$ 2,432	\$ 979	\$ 1,214
Other real estate owned	572	602	617	617	617
Total	<u>\$ 2,965</u>	<u>\$ 3,002</u>	<u>\$ 3,049</u>	<u>\$ 1,596</u>	<u>\$ 1,831</u>
Nonperforming assets as a percentage of total assets	<u>0.28 %</u>	<u>0.28 %</u>	<u>0.29 %</u>	<u>0.15 %</u>	<u>0.18 %</u>

#### Allocation of Allowance for Credit Losses on Loans and Leases

While no portion of the allowance for credit losses is in any way restricted to any individual loan or group of loans and the entire allowance is available to absorb losses from any and all loans, the following table shows an allocation of the allowance for credit losses as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

September 30, 2023	December 31, 2022	As of and for the Three Months Ended		As of and for the Year Ended	
		March 31, 2024		December 31, 2023	

Pe			Pe			rc			rc								
en			ent			t			ent								
of			of			All			All								
All			rce			ow			ow								
ow			an			an			Per								
an			ce			ce			cen								
ce			in			in			t of								
in			Ea			Ea			Loa								
Ea			ch			ch			ns								
ch			Ca			Ca			in								
Ca			te			ch			teg								
te			go			Ca			or								
go			All			ry			h								
All			ry			teg			Cat								
oca			to			ory			All								
tio			To			to			ego								
n			tal			Tot			ry								
All			All			All			ry								
ow			ow			Lo			tion								
anc			an			an			al								
e			ce			anc			al								

Secure d by 1- 4 family residen tial proper ties	7 5 4	1 6. 6 %	8 0. 3 %	11 8. .4 %	532	0.72 %	-0.12 %	591	0.78 %	0.05 %
Secure d by multi- family residen tial proper ties	4 0 5		6 4 9 %	8. 6. 9 %	400	0.64 %	—	415	0.66 %	—
Secure d by non- farm, non- residen tial proper ties	1, 6 2 2		1, 2 4. 3 %	2 9 7 0 9 %	1,350	0.64 %	—	1,425	0.67 %	—
Commerci al and industrial loans	5 3 0		9 4. 7 %	2 7 9 8 %	489	0.86 %	—	513	0.85 %	—
Consume r loans:										
Direct	4 8 7		8 4. 3 %	1 0. 8 %	6 9. 2 %	68	1.22 %	-5.53 %	64	1.06 %
Branch retail	8 3 5		5 1. 8 %	1 5. 3 %	1 5 %	307	3.94 %	-1.65 %	436	5.03 %
Indirect	6, 1 6 7		3, 5 3 1 %	3 3. 8 %	1 34 .4 %	6,630	2.20 %	0.42 %	6,498	2.12 %
										0.31 %

Total	1											
allowance	1,	1	1	9,	1							
for credit	3	0	0	4	0	10						
losses	8	0.	0.	2	0.	0.						
	\$ 0	0 %	0 %	\$ 2	0 %	0 %	\$ 10,436		1.27 %	0.09 %	\$ 10,507	
	<u>      </u>											
	<u>      </u>											

## Deposits

Total deposits increased/decreased to \$927.0 million \$943.3 million as of September 30, 2023 March 31, 2024, from \$870.0 million \$950.2 million as of December 31, 2022 December 31, 2023, an increase/decrease of 6.6% 0.7%. Core deposits, which exclude time deposits of \$250 thousand or more and all brokered deposits, provide a relatively stable funding source that supports earning assets. Core deposits totaled \$786.8 million \$807.3 million, or 84.9% 85.6% of total deposits, as of September 30, 2023 March 31, 2024, compared to \$778.1 million \$819.5 million, or 89.4% 86.2% of total deposits, as of December 31, 2022 December 31, 2023.

Core deposits have historically been the Company's primary source of funding and have enabled the Company to successfully meet both short-term and long-term liquidity needs. Management anticipates that core deposits will continue to be the Company's primary source of funding in the future. Management will continue to monitor deposit levels closely to help ensure an adequate level of funding for the Company's activities. However, various economic and competitive factors could affect this funding source in the future, including increased competition from other financial institutions in deposit gathering, national and local economic conditions and interest rate policies adopted by the FRB and other central banks.

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## Other Interest-Bearing Liabilities

Other interest-bearing liabilities consist of federal funds purchased, securities sold under agreements to repurchase, FHLB advances, and subordinated debt that are used by the Company as an alternative source of funds. As of September 30, 2023 March 31, 2024, other interest-bearing liabilities totaled 5.0% 3.1% of total interest-bearing liabilities, compared to 4.2% 2.5% as of December 31, 2022 December 31, 2023.

## Shareholders' Equity

As of September 30, 2023 March 31, 2024, shareholders' equity totaled \$87.4 million, or 8.2% of total assets, compared to \$85.1 million \$92.3 million, or 8.6% of total assets, compared to \$90.6 million, or 8.4% of total assets, as of December 31, 2022 December 31, 2023. The increase in shareholders' equity during the three months ended March 31, 2024 resulted primarily from earnings, net of dividends paid, partially offset by paid. In addition, the CECL transition adjustment which reduced retained earnings by \$1.8 million,

net rising interest rate environment during the first quarter of tax, as well as 2024 led to a net further decrease in valuations of available-for-sale investment securities and drove an overall increase in accumulated other comprehensive loss of \$1.7 million associated with fair value declines that partially offset the increase in the available-for-sale investment portfolio and reclassification adjustments associated with terminated interest rate swaps. shareholders' equity.

During the nine both the three months ended September 30, 2023, March 31, 2024 and 2023, the Company declared dividends totaling \$0.15 \$0.05 per common share, or approximately \$0.9 million \$0.3 million in aggregate amount, compared to \$0.09 per common share, or approximately \$0.5 million in aggregate amount, during the nine months ended September 30, 2022, amount. Bancshares' Board of Directors evaluates dividend payments based on the Company's level of earnings and the desire to maintain a strong capital base, as well as regulatory requirements relating to the payment of dividends.

## LIQUIDITY AND CAPITAL RESOURCES

The asset portion of the balance sheet provides liquidity primarily from the following sources: (1) excess cash and interest-bearing deposits in banks, (2) federal funds sold, (3) principal payments and maturities of loans and (4) principal payments and maturities from the investment portfolio. Loans maturing or repricing in one year or less amounted to \$227.8 million \$266.1 million as of September 30, 2023 March 31, 2024 and \$212.5 million \$241.2 million as of December 31, 2022 December 31, 2023. Investment securities forecasted to mature or reprice in one year or less were estimated to be \$20.5 million \$9.0 million and \$7.1 million \$12.9 million of the investment portfolio as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Although some securities in the investment portfolio have legal final maturities exceeding 10 years, a substantial percentage of the portfolio provides monthly principal and interest payments and consists of securities that are readily marketable and easily convertible into cash on short notice. The investment securities portfolio had an estimated average life of 3.9 4.2 years and 3.5 3.9 years as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. However, management does not rely solely upon the investment portfolio to generate cash flows to fund loans, capital expenditures, dividends, debt repayment and other cash requirements. These activities are also funded by cash flows from loan payments, as well as increases in deposits and short-term borrowings.

The liability portion of the balance sheet provides liquidity through interest-bearing and non-interest-bearing deposit accounts, which represent the Company's primary sources of funds. In addition, federal funds purchased, FHLB advances, securities sold under agreements to repurchase and short-term and long-term borrowings are additional sources of available liquidity. Liquidity management involves the continual monitoring of the sources and uses of funds to maintain an acceptable cash position. Long-term liquidity management focuses on considerations related to the total balance sheet structure. The Bank manages the pricing of its deposits to maintain a desired deposit balance.

The Company had \$30.0 million \$15.0 million and \$20.0 million \$10.0 million of outstanding borrowings under FHLB advances as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. In addition, on October 1, 2021, the Company completed a private placement of \$11.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes

that will mature on October 1, 2031. Net of unamortized debt issuance costs, the subordinated notes were recorded as long-term borrowings totaling \$10.8 million and \$10.7 million as of September 30, 2023 both March 31, 2024 and December 31, 2022, respectively. December 31, 2023.

The Company had up to \$260.3 million \$276.8 million and \$246.8 million \$279.4 million in remaining unused credit from the FHLB (subject to available collateral, which may include eligible investment securities and loans) as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. In addition, the Company had \$48.0 million and \$45.0 million in unused established federal funds lines as of September 30, 2023 both March 31, 2024 and December 31, 2022, respectively. December 31, 2023.

The Company also has access to the FRB's discount window and its Bank Term Funding Program (BTFP), the latter of which was established in response to the recent liquidity events that have occurred in the banking industry. Both the window. The discount window and the BTFP allow allows borrowing on pledged collateral that includes eligible investment securities and in certain circumstances, eligible loans. In response to heightened liquidity concerns in the banking industry, during 2023 management undertook measures designed to enhance the Company's liquidity position. These procedures included holding higher levels of on-balance sheet cash, as well as enhancing the availability of off-balance sheet borrowing capacity. As part of these efforts, during the third quarter of 2023, the Company completed the establishment of additional borrowing capacity through the FRB's discount window, primarily via the pledging of the majority of the Company's indirect loan portfolio as collateral. Due to Including the pledging of these efforts, the Company's immediate borrowing capacity based on collateral pledged through the discount window increased to \$146.6 million as of September 30, 2023, compared to \$1.2 million as of December 31, 2022.

#### RESPONSE TO RECENT LIQUIDITY EVENTS

In response to heightened liquidity concerns for the banking industry during 2023, management undertook measures designed to enhance the Company's liquidity position, including holding higher levels of on-balance sheet cash and enhancing the Company's off-balance sheet borrowing capacity through both secured and unsecured sources. Although the liquidity events that have occurred in 2023 have strained the banking industry as a whole, the Company's management remains confident in the stability of the Company's core deposit base which has served as the Company's primary funding source for many years. Excluding wholesale brokered deposits, as of September 30, 2023, loans, along with selected securities, the Company had over 29 thousand deposit accounts \$158.8 and \$161.7 million in borrowing capacity with an average balance of approximately \$28.9 thousand per account. Estimated uninsured/uncollateralized deposits (calculated as deposit amounts per deposit holder in excess of \$250 thousand, the maximum amount of federal deposit insurance, and excluding deposits secured by pledged assets) totaled \$173.0 million, or 18.7% of total deposits, FRB's discount window as of September 30, 2023 March 31, 2024 and December 31, 2023, compared to \$148.3 million, or 17.1% of total deposits, as of December 31, 2022, respectively.

The table below provides information on the Company's on-balance sheet liquidity, as well as readily available off-balance sheet sources of liquidity as of both **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

	September	December	March 31, 2024	December 31, 2023
	30, 2023	31, 2022		
	(Dollars in Thousands) (Unaudited)	(Dollars in Thousands) (Unaudited)		
Liquidity from cash and federal funds sold:				
Cash and cash equivalents	\$ 66,129	\$ 30,152	\$ 60,242	\$ 50,279
Federal funds sold	1,143	1,768	5,532	9,475
Liquidity from cash and federal funds sold	67,272	31,920	65,774	59,754
Liquidity from pledgeable investment securities:				
Investment securities available-for sale, at fair value	126,551	130,795	125,380	135,565
Investment securities held-to-maturity, at amortized cost	1,272	1,862	983	1,104
Less: securities pledged	(42,340)	(54,717)	(47,233)	(41,375)
Less: estimated collateral value discounts	(10,943)	(7,833)	(11,080)	(11,129)
Liquidity from pledgeable investment securities	74,540	70,107	68,050	84,165
Liquidity from unused lendable collateral (loans) at FHLB	6,676	18,215	15,878	21,696
Liquidity from unused lendable collateral (loans and securities) at FRB	146,613	1,198	158,782	161,729
Unsecured lines of credit with banks	48,000	45,000	48,000	48,000
<b>Total readily available liquidity</b>	<b>\$ 343,101</b>	<b>\$ 166,440</b>	<b>\$ 356,484</b>	<b>\$ 375,344</b>

The table **above** calculates readily available **sources of liquidity** including by combining cash and cash equivalents, federal funds sold and other unencumbered investment security values on the Company's consolidated balance sheet with off-balance sheet liquidity sources. Certain of the measures have not been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"); however, management believes that the non-GAAP measures are beneficial is readily available through unused collateral pledged to the reader FHLB and FRB, as they enhance the overall understanding well as unsecured lines of the Company's liquidity position and can be used as a supplement to GAAP-based measures of liquidity. Specifically, liquidity credit with other banks. Liquidity from **pledgeable** **pledgeable** investment securities and total readily available liquidity are non-GAAP measures used by management and regulators to analyze a portion of the Company's liquidity. **Pledgeable** Management uses these measures to evaluate the Company's liquidity position.

**Pledgeable** investment securities are considered by management as a readily available source of liquidity since the Company has the ability to pledge the securities with the FHLB or FRB to obtain immediate funding. Both available-for-sale and held-for-maturity

securities may be pledged at fair value with the FHLB and through the FRB discount window. The amounts shown as liquidity from **pledgeable** **pledgeable** investment securities **represents** **represent** total investment securities as recorded on the **consolidated** balance sheet, less reductions for securities already pledged and discounts expected to be taken by the lender to determine collateral value.

The **calculations are intended to reflect minimum levels of liquidity readily** **unused** **lendable** **collateral value at the FHLB** presented in the table represents only the amount immediately available to the Company through from loans already pledged by the Company to the FHLB as of each consolidated balance sheet date presented. As of March 31, 2024 and December 31, 2023, the Company's total remaining credit availability with the FHLB was \$276.8 million and \$279.4 million, respectively, subject to the pledging of additional collateral which may include eligible investment securities and **do not contemplate** loans. In addition, the Company has access to additional sources of liquidity that generally could be obtained over a period of time. For example, the Company has access to unsecured brokered deposits through the wholesale funding markets. Management believes the Company's on-balance sheet and other readily available liquidity that could be available from provide strong indicators of the **FRB** through Company's ability to fund obligations in a stressed liquidity environment.

Excluding wholesale brokered deposits, as of March 31, 2024, the **BTFP**. The non-GAAP financial measures that are discussed Company had approximately 29 thousand deposit accounts with an average balance of approximately \$29.6 thousand per account. Estimated uninsured deposits (calculated as deposit amounts per deposit holder in this Quarterly Report should not be considered in isolation) excess of \$250 thousand, the maximum amount of federal deposit insurance, and excluding deposits secured by pledged assets) totaled \$192.5 million, or 20.4% of total deposits, as a substitute for the most directly comparable of March 31, 2024. As of December 31, 2023, estimated uninsured deposits totaled \$200.3 million, or other financial measures calculated in accordance with GAAP 21.1% of total deposits.

Management believes that the Company has adequate sources of liquidity to cover its contractual obligations and commitments over the next twelve months.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary purpose of managing interest rate risk is to invest capital effectively and preserve the value created by the Company's core banking business. This is accomplished through the development and implementation of lending, funding, pricing and hedging strategies designed to maximize net interest income performance under varying interest rate environments, subject to liquidity and interest rate risk guidelines. Effective interest rate sensitivity management ensures that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of such interest rate movements on short- and long-term net interest margin and net interest income.

Financial simulation models are the primary tools used by the Asset/Liability Committee of the Bank's board of directors to measure interest rate exposure. Using a wide range of scenarios, management is provided with extensive information on the potential impact

on net interest income caused by changes in interest rates. In these simulations, assumptions are made about the direction and volatility of interest rates, the slope of the yield curve and the changing composition of the Company's balance sheet resulting from both strategic plans and customer behavior. Simulation models also incorporate management's assumptions regarding such factors as loan and deposit growth, pricing, prepayment speeds and spreads between interest rates paid on deposits and charged on loans. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on our results but rather as a means to better plan and execute appropriate asset-liability management strategies and manage our interest rate risk.

### Assessing Short-Term Interest Rate Risk – Net Interest Margin Simulation

On a quarterly basis, management simulates how changes in short- and long-term interest rates will impact future profitability, as reflected by changes in the Bank's net interest margin and net interest income. The tables below depict how, as of **September 30, 2023** **March 31, 2024**, pre-tax net interest margin and net interest income are forecasted to change over timeframes of one year and two years under the six listed interest rate scenarios. The interest rate scenarios contemplate immediate and parallel shifts in short- and long-term interest rates.

*Average Change in Net Interest Margin from Level Interest Rate Forecast (basis points, pre-tax):*

	1 Year	2 Years	1 Year	2 Years
+1%	11	10	9	7
+2%	19	17	15	12
+3%	23	19	19	14
-1%	(13)	(11)	(13)	(11)
-2%	(28)	(26)	(25)	(23)
-3%	(44)	(41)	(38)	(36)

*Cumulative Change in Net Interest Income from Level Interest Rate Forecast (dollars in thousands, pre-tax):*

	1 Year	2 Years	1 Year	2 Years
+1%	\$ 1,149	\$ 2,119	\$ 926	\$ 1,502
+2%	2,047	3,646	1,620	2,491
+3%	2,461	4,119	2,059	3,032
-1%	(1,378)	(2,468)	(1,375)	(2,353)
-2%	(3,056)	(5,592)	(2,738)	(4,950)
-3%	(4,736)	(8,842)	(4,065)	(7,790)

During the three months ended March 31, 2024, the Company acquired \$50 million notional interest rate floors to improve positioning in down rate scenarios.

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## ITEM 4. CONTROLS AND PROCEDURES

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Bancshares maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in Bancshares' reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to Bancshares' management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Bancshares' management carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Bancshares' disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of **September 30, 2023** **March 31, 2024**, pursuant to the evaluation of these controls and procedures required by Rule 13a-15 of the Exchange Act. Based on that evaluation, Bancshares' management concluded, as of **September 30, 2023** **March 31, 2024**, that Bancshares' disclosure controls and procedures were effective at the reasonable assurance level to ensure that the information required to be disclosed in Bancshares' periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in Bancshares' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended **September 30, 2023** **March 31, 2024** that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is a party to certain ordinary course litigation, and the Company intends to vigorously defend itself in all such litigation. In the opinion of the Company, based on review and consultation with legal counsel, the outcome of such ordinary course litigation should not have a material adverse effect on the Company's consolidated financial statements or results of operations.

#### ITEM 1A. RISK FACTORS

A list of factors that could materially affect the Company's business, financial condition and/or operating results is included in Part I, Item 1A, "Risk Factors" in the Company's **2022** **2023** Form 10-K. There have been no material changes to such risk factors, except as set forth below. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

**Adverse developments affecting the financial services industry, such as recent bank failures or concerns involving liquidity, may have a material effect on the Company's operations.**

Recent events relating to the failures of certain banking entities in March and April 2023, including Silicon Valley Bank, Signature Bank and First Republic Bank, have caused general uncertainty and concern regarding the liquidity adequacy of the banking sector as a whole. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, banks, investment banks, mutual funds, and other institutional entities. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. Any such losses could be material and could materially and adversely affect our business, financial condition and results of operations. In addition, we anticipate increased regulatory scrutiny and new regulations directed towards regional banks, and potentially community banks of similar size to us, designed to address the recent negative developments in the banking industry, all of which may increase our costs of doing business and reduce our profitability. In addition, the cost of resolving recent bank failures may prompt the FDIC to increase its premium above the recently increased levels or to issue additional special assessments.

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

The following table sets forth purchases made by or on behalf of Bancshares or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) of the Exchange Act, of shares of Bancshares' common stock during the **third** **first** quarter of **2023**: **2024**:

##### Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs <sup>(2)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Programs <sup>(2)</sup>
July 1 – July 31	1,181	\$ 8.62	—	596,813

August 1 – August 31	110	\$ 8.93	—	596,813
September 1 – September 30	110	\$ 8.80	—	596,813
<b>Total</b>	<b>1,401</b>	<b>\$ 8.65</b>	<b>—</b>	<b>596,813</b>

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs <sup>(2)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Programs <sup>(2)</sup>
January 1 – January 31	863	\$ 10.64	—	459,313
February 1 – February 29	92	\$ 10.42	—	459,313
March 1 – March 31	285	\$ 9.66	—	459,313
<b>Total</b>	<b>1,240</b>	<b>\$ 10.40</b>	<b>—</b>	<b>459,313</b>

(1) 1,401 1,240 shares were purchased in open-market transactions by an independent trustee for Bancshares' 401(k) Plan during the third first quarter of 2023 2024.

(2) No shares were repurchased during the third first quarter pursuant to Bancshares' publicly announced share repurchase program, which was initially approved by the Board of Directors on January 19, 2006 and authorized the repurchase of up to 642,785 shares of common stock. On each of December 18, 2019 In December 2019 and April 28, 2021, April 2021, the Board approved the repurchase of additional shares of common stock under the share repurchase program, and the Board has periodically extended the expiration date of the program, most recently to December 31, 2023 December 31, 2024. As of September 30, 2023 March 31, 2024, Bancshares was authorized to repurchase up to 596,813 459,313 shares of common stock under the share repurchase program.

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#### ITEM 5. OTHER INFORMATION

(a) None.

(b) None.

(c) During the period covered by this report, none of the Company's directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (each as defined in Item 408 of Regulation S-K under the Securities Exchange Act of 1934, as amended).

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#### ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	<a href="#">Certificate of Incorporation of United Security Bancshares, Inc. (incorporated by reference to Exhibit 3(i) to the Quarterly Report on Form 10-Q (File No. 000-14549), filed on November 12, 1999).</a>
3.1A	<a href="#">Certificate of Amendment to the Certificate of Incorporation of United Security Bancshares, Inc., effective as of October 11, 2016 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 000-14549), filed on October 11, 2016).</a>
3.2	<a href="#">Amended and Restated Bylaws of First US Bancshares, Inc., effective as of November 16, 2022 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 000-14549), filed on November 16, 2022).</a>
10.1	<a href="#">First US Bancshares, Inc. Non-Employee Directors' Deferred Compensation Plan 2024 Cash Incentive Program (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 000-14549), filed on February 12, 2024).</a>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.</a>
32*	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	The following financial statements from the Quarterly Report on Form 10-Q for the quarter ended <span style="background-color: #FFD700;">September 30, 2023</span> <span style="background-color: #A9F5D0;">March 31, 2024</span> , formatted in Inline XBRL: (i) Interim Condensed Consolidated Balance Sheets, (ii) Interim Condensed Consolidated Statements of Comprehensive Income, (iii) Interim Condensed Consolidated Statements of Operations, (iv) Interim Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Interim Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Interim Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104	The cover page from the Quarterly Report on Form 10-Q for the quarter ended <span style="background-color: #FFD700;">September 30, 2023</span> <span style="background-color: #A9F5D0;">March 31, 2024</span> , formatted in Inline XBRL.

\*Filed herewith

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## 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.

FIRST US BANCSHARES, INC.

DATE: November 8, 2023 May 10, 2024

By: /s/ Thomas S. Elley

Thomas S. Elley  
Its Senior Executive Vice President, Treasurer and  
Assistant Secretary, Chief Financial Officer and  
Principal Accounting Officer  
(Duly Authorized Officer and Principal Financial  
Officer)

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Exhibit 10.1

### FIRST US BANCSHARES, INC.

#### NON-EMPLOYEE DIRECTORS' DEFERRED COMPENSATION PLAN

First US Bancshares, Inc. (the "Holding Company") hereby amends and restates, effective as of July 1, 2023, the First US Bancshares, Inc. Non-Employee Directors' Deferred Compensation Plan (formerly known as the "United Security Bancshares, Inc. Non-Employee Directors' Deferred Compensation Plan").

#### ARTICLE I PURPOSE OF PLAN

The purpose of the Plan is to assist the Directors of the Holding Company and the Bank in planning for their retirement.

#### ARTICLE II DEFINITIONS

Where the following terms appear herein, they shall have the respective meanings set forth in this ARTICLE II, unless the context clearly indicates to the contrary.

Section 2.1. "Bank" shall mean First US Bank, a wholly-owned subsidiary of the Holding Company.

Section 2.2. "Board of Directors" shall mean the board of directors of the Holding Company.

Section 2.3. "Committee" shall mean the compensation committee of the Board of Directors.

Section 2.4. "Compensation" shall mean a Participant's cash compensation for services as a Director.

Section 2.5. "Deferral Termination Date" shall mean the date a Participant's termination of his or her directorship constitutes a Separation from Service.

Section 2.6. "Deferred Compensation" shall mean Compensation deferred pursuant to the provisions of the Plan.

Section 2.7. "Deferred Compensation Account" shall mean the Participant's account established pursuant to Section 4.3 herein.

Section 2.8. "Director" shall mean a non-employee member of the Board of Directors or the board of directors of the Bank.

Section 2.9. "Effective Date" of this amendment and restatement shall mean July 1, 2023. The original effective date of the former Plan is January 22, 2004.

Section 2.10. "Holding Company" shall mean First US Bancshares, Inc.

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Section 2.11. "Market Price" shall mean the closing sales price per share for the common stock of the Holding Company or, if no closing sales price is reported, the average of the bid and ask prices per share on such date, as reported on the Nasdaq Stock Market LLC.

Section 2.12. "Participant" shall mean any Director who has elected to have all or a part of his or her Compensation deferred pursuant to the Plan.

Section 2.13. "Plan" shall mean this First US Bancshares, Inc. Non-Employee Directors' Deferred Compensation Plan, as the same may hereafter be amended from time to time. The Plan was formerly known as the "United Security Bancshares, Inc. Non-Employee Directors' Deferred Compensation Plan."

Section 2.14. "Plan Earnings" shall mean amounts of interest to which reference is made in Section 5.1 herein and of dividends and distributions to which reference is made in Sections 6.2 and 6.3 herein.

Section 2.15. "Section 409A" shall mean Internal Revenue Code Section 409A and any and all Treasury regulations and guidance promulgated thereunder.

Section 2.16. "Separation from Service" shall mean a Participant's "separation from service" within the meaning of Section 409A.

Section 2.17. "Stock Equivalent" shall mean a measure of value equal to one share of the Holding Company's common stock and shall not include stock appreciation rights.

Section 2.18. "Stock Equivalents Account" shall mean the Participant's account established pursuant to Section 4.3 herein.

## **ARTICLE III** **ADMINISTRATION OF THE PLAN**

Section 3.1. Committee. The Committee or such successor Committee as may be duly appointed by the Board of Directors shall administer, construe and interpret the Plan. Decisions of the Committee with respect to any matter involving the Plan shall be final and binding on the Holding Company, the Bank and all Participants. The Committee shall maintain complete and adequate records pertaining to the Plan, including but not limited to Deferred Compensation Accounts and Stock Equivalents Accounts.

### **Section 3.2. Indemnity.**

(a) The Holding Company (the "Indemnifying Party") hereby agrees to indemnify and hold harmless the members of the Committee (the "Indemnified Parties") against any losses, claims, damages or liabilities to which any of the Indemnified Parties may become subject to the extent that such losses, claims, damages, liabilities or actions in respect thereof arise out of or are based upon any act or omission of such Indemnified Party in connection with the administration of the Plan (including any act or omission constituting negligence on the part of such Indemnified Party, but excluding any act or omission constituting gross negligence or willful misconduct on the part of such Indemnified Party), and will reimburse the Indemnified Party for any legal or other

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expenses reasonably incurred by him or her in connection with investigating or defending against any such loss, claim, damage, liability or action.

(b) Promptly after receipt by the Indemnified Party under Section 3.2(a) herein of notice of the commencement of any action or proceeding for which the Indemnified Party believes he or she is indemnified under Section 3.2(a), the Indemnified Party shall notify the Indemnifying Party in writing of the commencement thereof; provided, however, that the failure to notify the Indemnifying Party shall not relieve it from any liability which it may have to the Indemnified Party to the extent the Indemnifying Party is not prejudiced by such failure. If any such action or proceeding shall be brought against the Indemnified Party and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to participate therein, and, to the extent that it shall wish, to assume the defense thereof, with counsel reasonably satisfactory to the Indemnified Party, and the Indemnifying Party shall not be liable to such Indemnified Party under Section 3.2(a) for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof, other than reasonable costs of investigation or reasonable expenses of actions taken at the written request of the Indemnifying Party. The Indemnifying Party shall not be liable for any compromise or settlement of any such action or proceeding effected without its consent, which consent will not be unreasonably withheld.

## **ARTICLE IV**

## **DEFERRED COMPENSATION**

Section 4.1. Initial Elections by Directors. Any Director may (a) within thirty (30) days of the date the Director first becomes a Director or (b) within thirty (30) days prior to a calendar year elect to participate in the Plan and to have all or a portion of the Compensation otherwise payable to him or her as a Director deferred and paid to him or her after his or her Deferral Termination Date. In making such initial election hereunder, a Director shall specify the portion, if any, of such Deferred Compensation which will be (1) held subject to the interest payment provisions of ARTICLE V hereof or (2) translated into Stock Equivalents in accordance with ARTICLE VI hereof. Such election shall be made on a form provided by and delivered to the Committee and shall be applicable only with respect to Compensation earned after the end of the calendar month in which such election is made.

Section 4.2. Subsequent Elections by Directors. Within thirty (30) days prior to the beginning of any calendar year following a Director's initial election described in Section 4.1, a Participant may make a subsequent election to increase or decrease the portion of his or her Compensation to be deferred pursuant to the Plan and to elect the portion of such Deferred Compensation and any Plan Earnings to be (a) held subject to the interest payment provisions of ARTICLE V hereof or (b) translated into Stock Equivalents in accordance with ARTICLE VI hereof. Any such election shall be effective as of the first day of the calendar year following the calendar year in which such election is made. Notwithstanding anything to the contrary herein, no such subsequent election shall affect a transfer of any amount credited, as of the first day of such calendar year, to either the Deferred Compensation Account or the Stock Equivalents Account from such account to the other account.

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Section 4.3. Establishment of Deferred Compensation Accounts and Stock Equivalents Accounts. There shall be established for each Participant an account to be designated as such Participant's Deferred Compensation Account and an account to be designated as such Participant's Stock Equivalents Account, as appropriate.

Section 4.4. Allocations to Accounts. Any Deferred Compensation earned by a Participant during a calendar month shall be credited to the Participant's Deferred Compensation Account as of the end of the calendar month. Plan Earnings that consist of interest accrued on a Participant's Deferred Compensation Account due to the portion of Deferred Compensation that is subject to the interest payment provisions of ARTICLE V shall be credited to such Participant's Deferred Compensation Account as of the end of each month. Plan Earnings that consist of dividends (cash or otherwise) and distributions accrued on a Participant's Stock Equivalents Account due to the portion of Deferred Compensation that has been translated into Stock Equivalents in accordance with ARTICLE VI shall be credited to such Participant's Deferred Compensation Account as of the end of each calendar quarter in accordance with ARTICLE VI.

## **ARTICLE V** **DEFERRED COMPENSATION SUBJECT TO INTEREST**

**Section 5.1. Interest on Deferred Compensation Accounts.** A Participant's Deferred Compensation Account shall be credited as of the end of each calendar month with an amount equivalent to interest for the number of days in such calendar month at the one-month term Secured Overnight Financing Rate (SOFR) plus 75 basis points for the last business day of the immediately preceding calendar month as reported by the Chicago Mercantile Exchange applied to the balance of such account at the beginning of such calendar month; provided, however, no amount credited to a Participant's Deferred Compensation Account subsequent to the beginning of a calendar month shall bear interest during that calendar month. Interest credited to a Participant's Deferred Compensation Account shall be held in such account subject to the provisions of Section 4.4 herein.

**Section 5.2. Distribution of Deferred Compensation Accounts Subject to Interest.**

(a) When a Participant's Deferral Termination Date shall occur, the balance in such Participant's Deferred Compensation Account shall be distributed in cash to such Participant in a single lump-sum payment; provided, however, that a Participant who previously elected to be paid in five (5) annual installments pursuant to the prior Plan terms shall have the balance in his or her Deferred Compensation Account paid in accordance with such election. Until payment is made, interest shall continue to accrue in the manner provided in Section 5.1. Plan Earnings accrued to the date of payment of any lump-sum or annual installment on such amount shall be paid in conjunction with such payment. The lump-sum and/or initial annual installment shall be distributed within thirty (30) days after a Participant's Deferral Termination Date. The remaining installments, if appropriate, shall be distributed at annual intervals thereafter.

(b) If a Participant's Deferral Termination Date shall occur by reason of his or her death or if he or she shall die after his or her Deferral Termination Date, but prior to receipt of all payments provided for in this Section, all payments distributable hereunder shall be distributed in a lump-sum to such Participant's beneficiary designated on his or her election form, or if none is

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designated, to such Participant's estate or personal representative, as soon as administratively feasible after the Participant's death but no later than December 31 of the year following the year of his or her death.

**ARTICLE VI**  
**STOCK EQUIVALENTS**

**Section 6.1. Stock Equivalents Accounts.** The number of Stock Equivalents, or fractions thereof, to be credited to a Participant's Stock Equivalents Account in accordance with Section 4.4 shall be determined by dividing the amount of Deferred Compensation and Plan Earnings to be allocated to such account pursuant to the Participant's specifications given in accordance with ARTICLE IV by the Market Price on the last trading day of the calendar quarter as specified in Section 4.4. The number of Stock Equivalents, so determined, shall be credited to the Stock Equivalents Account established for the Participant.

**Section 6.2. Cash and Property Dividend Credits.** Additional credits shall be made to a Participant's Deferred Compensation Account throughout the period of such Participant's participation in the Plan, and thereafter until all distributions to which the Participant is entitled under Section 6.5 or ARTICLE VIII shall have

been made, in amounts equal to the Plan Earnings consisting of the cash or fair market value of any dividends or distributions declared and made with respect to the Holding Company's common stock payable in cash, securities issued by the Holding Company (other than the Holding Company's common stock but including any such securities convertible into the Holding Company's common stock) or other property which the Participant would have received had he or she been the owner on the record dates for the payment of such dividends of the number of shares of the Holding Company's common stock equal to the number of Stock Equivalents in his or her Stock Equivalents Account on such dates. Each such credit shall be effected as of the end of the calendar quarter in which such dividend or distribution is made. Each amount so credited to a Participant's Deferred Compensation Account shall be held in such account subject to the provisions of Section 4.4 herein.

**Section 6.3. Stock Dividend Credits.** Additional credits shall be made to a Participant's Stock Equivalents Account throughout the period of his or her participation in the Plan, and thereafter until all distributions to which the Participant is entitled under Section 6.5 or ARTICLE VIII shall have been made, of a number of Stock Equivalents equal to the number of shares (including fractional shares) of the Holding Company's common stock to which the Participant would have been entitled as common stock dividends had such Participant been the owner on the record dates for the payments of such stock dividends of the number of shares of the Holding Company's common stock equal to the number of Stock Equivalents credited to his or her Stock Equivalents Account on such dates. Such additional credits shall be effected as of the end of the calendar quarter in which payment of such stock dividend is made.

**Section 6.4. Recapitalization.** If, as a result of a split or combination of the Holding Company's outstanding common stock or other recapitalization or reorganization, the number of shares of the Holding Company's outstanding common stock is increased or decreased or all or a portion of the Holding Company's outstanding common stock is exchanged for or converted into other securities issued by the Holding Company (including without limitation securities convertible into the Holding Company's common stock) or other property, the number of Stock

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Equivalents credited to a Participant's Stock Equivalents Account shall, to the extent reasonably practicable, be equitably adjusted to give effect to such recapitalization or reorganization as if the Participant had owned of record on the effective date of such recapitalization or reorganization a number of shares of the Holding Company's common stock equal to the number of Stock Equivalents credited to his or her Stock Equivalents Account immediately prior thereto.

**Section 6.5. Distributions from Stock Equivalents Account.** When a Participant's Deferral Termination Date shall occur, the Holding Company shall become obligated to make the distributions prescribed in paragraphs (a) and (b) below. At the time of any distribution, each Stock Equivalent to be distributed shall be converted into one share of the Holding Company's common stock and such share shall be distributed to the Participant. Any fraction of a Stock Equivalent to be distributed shall be converted into an amount in cash equal to the Market Price of one share of the Holding Company's common stock on the trading day next preceding

the date of distribution multiplied by such fraction and such cash shall be distributed to the Participant. Additionally, any amounts earned by a Participant during a calendar quarter not yet allocated to the Participant's Stock Equivalents Account in accordance with Section 6.1 herein shall be distributed to the Participant in cash.

(a) Distribution shall be made to such Participant in a single lump-sum payment; provided, however, that a Participant who previously elected to be paid in five (5) annual installments pursuant to the prior Plan terms shall have the balance in his or her Deferred Compensation Account paid in accordance with such election. Until payment is made, Plan Earnings shall continue to be credited in the manner provided in Sections 6.2 and 6.3 herein. Plan Earnings accrued to the date of payment of any lump-sum and/or annual installment on such amount shall be paid in conjunction with such payment. The lump-sum and/or initial annual installment shall be distributed within thirty (30) days after a Participant's Deferral Termination Date. The remaining installments, if appropriate, shall be distributed at annual intervals thereafter.

(b) If a Participant's Deferral Termination Date shall occur by reason of his or her death or if he or she shall die after his or her Deferral Termination Date but prior to receipt of all distributions provided for in this Section, all Stock Equivalents, or the undistributed balance thereof, shall be distributed to such Participant's beneficiary designated on his or her election form, or if none is designated, to such Participant's estate or personal representative, as soon as administratively feasible after the Participant's death but no later than December 31 of the year following the year of his or her death.

## **ARTICLE VII**

### **NATURE OF PLAN**

Neither the Holding Company nor the Bank is under any obligation (1) to transfer amounts credited to a Participant's Deferred Compensation Account or Stock Equivalents Account to any trust or escrow account or (2) to secure any amount credited to a Participant's Deferred Compensation Account or Stock Equivalents Account by any specific assets of the Holding Company or the Bank or any other asset in which the Holding Company or the Bank has an interest. The Plan shall not be construed to require the Holding Company or the Bank to fund any of the benefits provided hereunder nor to establish a trust for such purpose. The Holding Company or the Bank may make such arrangements as it desires to provide for the payment of benefits.

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including, but not limited to, the establishment of a rabbi trust or such other equivalent arrangement as the Holding Company or the Bank may decide. No such arrangement shall cause the Plan to be a "funded" plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended, nor shall any such arrangement change the nature of the obligation of the Holding Company or the Bank or the rights of the Participants as provided herein. Neither a Participant nor his or her beneficiary, estate or personal representative shall have any rights against the Holding Company or the Bank with respect to any portion of a Deferred Compensation Account or Stock Equivalents Account or any trust, escrow account or other arrangement established in connection with the Plan except as a general unsecured creditor.

## **ARTICLE VIII**

### **TERMINATION OF THE PLAN**

The Board of Directors may terminate the Plan at any time. The termination of the Plan shall not cause any amounts allocated to a Participant's Deferred Compensation Account or Stock Equivalents Account, as applicable, to be distributed to a Participant, rather, after such termination, distributions shall be made in the manner and at the time prescribed in Section 5.2 or Section 6.5, as applicable; provided, however, notwithstanding the foregoing or as otherwise provided herein, if the Board of Directors terminates the Plan in accordance with Treas. Reg. Section 1.409A-3(j)(4)(ix) and any guidance issued thereunder, the Holding Company shall distribute in accordance with Section 409A the amounts allocated to Participants' Deferred Compensation Accounts and Stock Equivalents Accounts, determined as of the date of the termination of the Plan.

## **ARTICLE IX**

### **AMENDMENT OF THE PLAN**

The Board of Directors may, without the consent of Participants or their beneficiaries, amend the Plan at any time and from time to time; provided, however, that no amendment may deprive a Participant of the amounts allocated to his or her Deferred Compensation Account or Stock Equivalents Account or be retroactive in effect to the prejudice of any Participant. Notwithstanding the foregoing, the Board of Directors may amend the Plan at any time to comply with legislative changes or tax laws, including without limitation Section 409A.

## **ARTICLE X**

### **GENERAL PROVISIONS**

Section 10.1. No Preference. No Participant shall have any preference over the general creditors of the Holding Company or the Bank in the event of the Holding Company's or the Bank's insolvency.

Section 10.2. No Stockholder Rights Conferred. Nothing contained in the Plan will confer upon any Participant or beneficiary any rights of a stockholder of the Holding Company's common stock, unless and until shares of the Holding Company's common stock are in fact issued or transferred to such Participant or beneficiary in accordance with Article VI.

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Section 10.3. Authorized Payments. Subject to compliance with Treas. Reg. Section 1.409A-3(j)(4), if any amounts payable under the Plan are found in a "determination" (within the meaning of Section 1313(a) of the Internal Revenue Code of 1986, as amended) to have been includable in the gross income of a Participant prior to payment of such amounts hereunder, such amounts may be paid to such Participant as soon as practicable after the Committee is advised of such determination. For purposes of this Section, the Committee shall be entitled to rely on an affidavit by a Participant and a copy of the determination to the effect that a determination described herein has occurred.

Section 10.4. Gender Words. Wherever any words are used herein in the masculine, feminine or neuter gender, they shall be construed as though they were also used in another gender in all cases where

they would so apply, and whenever any words are used herein in the singular or plural form, they shall be construed as though they were also used in the other form in all cases where they would so apply.

**Section 10.5. Assignment of Benefits.** Benefits provided under the Plan may not be assigned or alienated, either voluntarily or involuntarily, and shall not be subject to the claims of creditors of any Participants; provided, however, in the event the Participant is indebted to the Holding Company or the Bank, such benefits may be used to offset such indebtedness prior to distribution.

**Section 10.6. Conflicts of Laws.** The laws of the State of Alabama shall govern the interpretation and performance of the terms of the Plan. The Plan is not intended to qualify under Section 401(a) of the Internal Revenue Code of 1986, as amended, or to comply with the Employee Retirement Income Security Act of 1974, as amended.

**Section 10.7. Internal Revenue Code Section 409A Compliance.** The payments made pursuant to this Plan is intended to comply with the requirements of Section 409A. This Plan and any applicable written agreement related to the payments hereunder shall be interpreted in accordance with Section 409A. Notwithstanding any other provision of this Plan to the contrary, if a Participant is a "specified employee" within the meaning of Section 409A, and a payment or benefit provided hereunder would be subject to additional tax under Section 409A if such payment or benefit is paid within six (6) months after the Participant's Separation from Service, then such payment or benefit required under this Plan shall not be paid (or commence) during the six-month period immediately following the Participant's Separation from Service. If the payment of any such amount is delayed in accordance with the previous sentence, then any payments or benefits that would otherwise have been made or provided during such six-month period and which would have incurred such additional tax under Section 409A shall instead be paid to the Participant in a lump-sum cash payment at the beginning of the seventh month following the Participant's Separation from Service (or such earlier date upon which such amount can be paid under Section 409A without resulting in a prohibited distribution, including as a result of the Participant's death). If the Participant's termination of employment hereunder does not constitute a Separation from Service, then any amounts payable hereunder on account of a termination of the Participant's employment and which are subject to Section 409A shall not be paid until the Participant has experienced a Separation from Service.

CERTIFICATION

I, James F. House, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First US Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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 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: November 8, 2023 May 10, 2024

By: /s/ James F. House

James F. House

President and Chief Executive Officer

## CERTIFICATION

I, Thomas S. Elley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First US Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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: November 8, 2023 May 10, 2024

By: /s/ Thomas S. Elley

Thomas S. Elley

Senior Executive Vice President, Treasurer and Assistant  
Secretary, Chief Financial Officer and  
Principal Accounting Officer

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**Exhibit 32**

**CERTIFICATION**  
PURSUANT TO 18 U.S.C. 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, James F. House, President and Chief Executive Officer of First US Bancshares, Inc., and Thomas S. Elley, Senior Vice President, Treasurer and Assistant Secretary, Chief Financial Officer and Principal Accounting Officer of First US Bancshares, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of First US Bancshares, Inc. for the fiscal quarter ended **September 30, 2023** **March 31, 2024** fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of First US Bancshares, Inc. for the periods described herein.

By: /s/ James F. House  
James F. House  
President and Chief Executive Officer  
**November 8, 2023** **May 10, 2024**

By: /s/ Thomas S. Elley  
Thomas S. Elley

Senior Executive Vice President, Treasurer  
and Assistant  
Secretary, Chief Financial Officer and Principal  
Accounting Officer

November 8, 2023 May 10, 2024

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