

REFINITIV

DELTA REPORT

10-Q

BSRR - SIERRA BANCORP
10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	1775
CHANGES	462
DELETIONS	796
ADDITIONS	517

**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 JUNE SEPTEMBER 30, 2024

Commission file number: 000-33063

SIERRA BANCORP
(Exact name of Registrant as specified in its charter)

California
(State of Incorporation)

33-0937517
(IRS Employer Identification No)

86 North Main Street, Porterville, California 93257
(Address of principal executive offices) (Zip Code)

(559) 782-4900
(Registrant's telephone number, including area code)

Not Applicable
(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, no par value	BSRR	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 checked="" type="checkbox"/>
Non-accelerated Filer:	<input type="checkbox"/>	Smaller Reporting Company:	<input 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 7(a)(2)(B) of the Securities 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.

As of **August 1, 2024** **November 1, 2024**, the registrant had **14,456,695** **14,393,598** shares of common stock outstanding, including **262,163** **221,886** shares of unvested restricted stock.

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PART I - FINANCIAL INFORMATION

Item 1 – Financial Statements

SIERRA BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
	(unaudited)	(audited)	(unaudited)	(audited)
ASSETS				
Cash and due from banks	\$ 96,048	\$ 73,721	\$ 97,632	\$ 73,721
Interest-bearing deposits in banks	87,942	4,881	35,165	4,881
Total cash & cash equivalents	183,990	78,602	132,797	78,602
Investment securities				
Available-for-sale, net of allowance for credit losses of \$0 and \$0	716,787	1,019,201	706,310	1,019,201
Held-to-maturity, net of allowance for credit losses of \$16 at both periods	312,879	320,057		
Held-to-maturity, net of allowance for credit losses of \$15 and \$16			308,971	320,057
Total investment securities	1,029,666	1,339,258	1,015,281	1,339,258
Loans:				
Gross loans	2,234,528	2,090,075	2,320,629	2,090,075
Deferred loan costs, net	288	309	396	309
Allowance for credit losses on loans	(21,640)	(23,500)	(22,710)	(23,500)
Net loans	2,213,176	2,066,884	2,298,315	2,066,884
Premises and equipment, net	16,007	16,907	15,647	16,907
Goodwill	27,357	27,357	27,357	27,357
Other intangible assets, net	961	1,399		
Bank-owned life insurance	53,431	51,572	54,000	51,572
Other assets	156,614	147,820	152,757	149,219
Total assets	\$ 3,681,202	\$ 3,729,799	\$ 3,696,154	\$ 3,729,799
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing	\$ 986,927	\$ 1,020,772	\$ 1,013,743	\$ 1,020,772
Interest-bearing	1,955,483	1,740,451	1,948,416	1,740,451
Total deposits	2,942,410	2,761,223	2,962,159	2,761,223
Repurchase agreements	148,003	107,121	125,534	107,121

Other borrowings	80,000	360,500	80,000	360,500
Long-term debt	49,348	49,304	49,371	49,304
Subordinated debentures	35,749	35,660	35,794	35,660
Allowance for credit losses on unfunded loan commitments	520	510		
Other liabilities	75,152	77,384	84,598	77,894
Total liabilities	3,331,182	3,391,702	3,337,456	3,391,702
Commitments and contingent liabilities (Note 7)				
Shareholders' equity				
Common stock, no par value; 24,000,000 shares authorized; 14,466,873 and 15,170,372 shares issued and outstanding at June 30, 2024 unaudited, and December 31, 2023, respectively	107,929	110,446		
Common stock, no par value; 24,000,000 shares authorized; 14,414,561 and 15,170,372 shares issued and outstanding at September 30, 2024 (unaudited), and December 31, 2023, respectively			108,435	110,446
Additional paid-in capital	5,336	4,581	5,263	4,581
Retained earnings	267,478	259,050	273,575	259,050
Accumulated other comprehensive loss, net	(30,723)	(35,980)		
Accumulated other comprehensive loss			(28,575)	(35,980)
Total shareholders' equity	350,020	338,097	358,698	338,097
Total liabilities and shareholders' equity	\$ 3,681,202	\$ 3,729,799	\$ 3,696,154	\$ 3,729,799

The accompanying notes are an integral part of these consolidated financial statements.

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SIERRA BANCORP
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX NINE MONTHS ENDED JUNE SEPTEMBER 30, 2024, and 2023
(dollars in thousands, except per share data, unaudited)

	Three months ended June				Three months ended		Nine months ended	
	30,		Six months ended June 30,		September 30,		September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
Interest and dividend income								
Loans, including fees	\$ 28,518	\$ 24,270	\$ 53,945	\$ 46,821	\$ 29,998	\$ 24,915	\$ 83,943	\$ 71,736
Taxable securities	12,787	13,488	26,090	25,472	11,991	14,375	38,081	39,848
Tax-exempt securities	1,592	2,741	3,581	5,555	1,584	2,679	5,164	8,233
Federal funds sold and other	598	376	839	446	1,225	415	2,065	861
Total interest income	43,495	40,875	84,455	78,294	44,798	42,384	129,253	120,678

Interest expense									
Deposits		11,032	7,943	20,676	13,943	11,980	8,767	32,656	22,710
Federal funds purchased and repurchase agreements		68	959	354	2,518	62	817	415	3,335
Federal Home Loan Bank advances		1,040	2,536	2,167	3,169	786	3,522	2,954	6,692
Long-term debt		430	429	861	857	429	429	1,291	1,286
Subordinated debentures		755	691	1,510	1,358	751	762	2,261	2,120
Total interest expense		13,325	12,558	25,568	21,845	14,008	14,297	39,577	36,143
Net interest income		30,170	28,317	58,887	56,449	30,790	28,087	89,676	84,535
Credit loss expense - loans		921	77	1,018	327	1,240	117	2,258	444
Credit loss (benefit) expense - unfunded commitments		(20)	(100)	10	(137)				
Credit loss expense (benefit) - unfunded commitments						120	(150)	130	(240)
Credit loss benefit - debt securities held-to-maturity		—	(47)	—	—	(1)	—	(1)	(47)
Net interest income after provision for credit losses		29,269	28,387	57,859	56,259				
Net interest income after credit loss expense						29,431	28,120	87,289	84,378
Noninterest income									
Service charges and fees on deposit accounts		6,184	5,691	11,909	11,071	6,205	6,055	18,114	17,127
Net gain (loss) on sale of securities available-for-sale		—	351	(2,883)	396	73	—	(2,810)	396
Net gain on sale of fixed assets		—	—	3,799		—	—	3,799	—
Increase in cash surrender value of life insurance		523	658	1,738	830	540	558	2,278	1,388
Other income		923	1,313	1,656	2,296	971	1,149	2,628	3,444
Total noninterest income		7,630	8,013	16,219	14,593	7,789	7,762	24,009	22,355
Noninterest expense									
Salaries and employee benefits		12,029	12,129	25,226	24,944	12,363	12,623	37,589	37,567

Occupancy and equipment costs	3,152	2,438	6,177	4,769	2,995	2,482	9,173	7,251
Other	7,511	8,401	15,815	16,247	7,452	7,457	23,266	23,704
Total noninterest expense	22,692	22,968	47,218	45,960	22,810	22,562	70,028	68,522
Income before taxes	14,207	13,432	26,860	24,892	14,410	13,320	41,270	38,211
Provision for income taxes	3,944	3,513	7,267	6,222	3,807	3,435	11,074	9,656
Net income	\$ 10,263	\$ 9,919	\$ 19,593	\$ 18,670	\$ 10,603	\$ 9,885	\$ 30,196	\$ 28,555
PER SHARE DATA								
Book value	\$ 24.19	\$ 20.90	\$ 24.19	\$ 20.90	\$ 24.88	\$ 21.01	\$ 24.88	\$ 21.01
Cash dividends	\$ 0.23	\$ 0.23	\$ 0.46	\$ 0.46	\$ 0.24	\$ 0.23	\$ 0.70	\$ 0.69
Earnings per share basic	\$ 0.72	\$ 0.67	\$ 1.36	\$ 1.26	\$ 0.75	\$ 0.68	\$ 2.11	\$ 1.93
Earnings per share diluted	\$ 0.71	\$ 0.67	\$ 1.35	\$ 1.26	\$ 0.74	\$ 0.68	\$ 2.09	\$ 1.93
Average shares outstanding, basic	14,300,267	14,735,568	14,404,368	14,853,052	14,188,051	14,583,132	14,331,032	14,762,231
Average shares outstanding, diluted	14,381,426	14,754,764	14,467,477	14,875,508	14,335,706	14,636,477	14,437,786	14,791,696
Total shareholders' equity (in thousands)	\$ 350,020	\$ 309,592	\$ 350,020	\$ 309,592	\$ 358,698	\$ 308,859	\$ 358,698	\$ 308,859
Shares outstanding	14,466,873	14,811,736	14,466,873	14,811,736	14,414,561	14,702,079	14,414,561	14,702,079
Dividends paid (in thousands)	\$ 3,352	\$ 3,459	\$ 6,748	\$ 6,954	\$ 3,431	\$ 3,407	\$ 10,179	\$ 10,361

The accompanying notes are an integral part of these consolidated financial statements.

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SIERRA BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX NINE MONTHS ENDED JUNE SEPTEMBER 30, 2024, and 2023
(dollars in thousands, unaudited)

	Three months ended June 30, Six months ended June 30,				Three months ended September 30Nine months ended Septe			
	2024	2023	2024	2023	2024	2023	2024	2023
Net income	\$ 10,263	\$ 9,919	\$ 19,593	\$ 18,670	\$ 10,603	\$ 9,885	\$ 30,196	\$ 28,555
Other comprehensive gain (loss), before tax:								
Unrealized gain (loss) on securities:								

Unrealized holding gain (loss) arising during period	1,703	(268)	4,580	488	3,124	(7,670)	7,704
Less: reclassification adjustment for (gains) losses included in net income (1)	—	(351)	2,883	(396)	(73)	—	2,810
Other comprehensive gain (loss), before tax	1,703	(619)	7,463	92	3,051	(7,670)	10,514
Income tax (expense) benefit related to items of other comprehensive gain	(504)	183	(2,206)	(27)	(903)	2,267	(3,109)
Other comprehensive gain (loss), net of tax:	1,199	(436)	5,257	65	2,148	(5,403)	7,405
Comprehensive income	\$ 11,462	\$ 9,483	\$ 24,850	\$ 18,735	\$ 12,751	\$ 4,482	\$ 37,601

(1) Amounts are included in net gains on investment securities available-for-sale on the Consolidated Statements of Income in noninterest income. Income tax expenses associated with the reclassification adjustment were negligible for the three months ended June 30, 2024, September 30, 2024 and 2023, was \$0 and \$0.01 million, respectively. 2023. Income tax expenses (benefits) expenses associated with the reclassification adjustment for the six nine months ended June 30, 2024 September 30, 2024 and 2023 were \$(0.9)\$0.8 million and \$0.1 million, \$(0.1) million, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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SIERRA BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED JUNE SEPTEMBER 30, 2024, and 2023
(dollars in thousands, except per share data, unaudited)

	Common Stock		Additional	Retained	Accumulated	Shareholders'
	Shares	Amount	Paid In Capital	Earnings	Other Comprehensive Loss	Equity
Balance, March 31, 2023	15,050,740	\$ 111,801	\$ 4,561	\$ 246,723	\$ (56,075)	\$ 307,010
Net income	—	—	—	9,919	—	9,919
Other comprehensive loss, net of tax	—	—	—	—	(436)	(436)
Restricted stock forfeited / cancelled	(3,856)	—	—	—	—	—
Restricted stock vested in period	—	80	(80)	—	—	—
Stock-based compensation - stock options	—	—	17	—	—	17
Stock-based compensation - restricted stock	—	—	389	—	—	389
Stock repurchased	(235,148)	(1,746)	—	(2,064)	—	(3,810)
Excise tax on stock repurchased	—	(38)	—	—	—	(38)
Cash dividends - \$0.23 per share	—	—	—	(3,459)	—	(3,459)
Balance, June 30, 2023	14,811,736	\$ 110,097	\$ 4,887	\$ 251,119	\$ (56,511)	\$ 309,592
Balance, March 31, 2024	14,645,298	\$ 109,295	\$ 4,815	\$ 262,906	\$ (31,922)	\$ 345,094
Net income	—	—	—	10,263	—	10,263
Other comprehensive gain, net of tax	—	—	—	—	1,199	1,199
Restricted stock forfeited / cancelled	(257)	—	—	—	—	—
Stock-based compensation - stock options	—	—	11	—	—	11
Stock-based compensation - restricted stock	—	—	510	—	—	510
Stock repurchased	(178,168)	(1,329)	—	(2,339)	—	(3,668)

Excise tax on stock repurchased	—	(37)	—	—	—	(37)
Cash dividends - \$0.23 per share	—	—	—	(3,352)	—	(3,352)
Balance, June 30, 2024	<u>14,466,873</u>	<u>\$ 107,929</u>	<u>\$ 5,336</u>	<u>\$ 267,478</u>	<u>\$ (30,723)</u>	<u>\$ 350,020</u>

	Common Stock		Additional		Accumulated	
					Other	
	Shares	Amount	Paid In Capital	Retained Earnings	Comprehensive Loss	Shareholders' Equity
Balance, June 30, 2023	14,811,736	\$ 110,097	\$ 4,887	\$ 251,119	\$ (56,511)	\$ 309,592
Net income	—	—	—	9,885	—	9,885
Other comprehensive loss, net of tax	—	—	—	—	(5,403)	(5,403)
Restricted shares withheld for taxes	(10,129)	(76)	—	(136)	—	(212)
Restricted stock vested in period	—	374	(374)	—	—	—
Stock-based compensation - stock options	—	—	16	—	—	16
Stock-based compensation - restricted stock	—	—	405	—	—	405
Stock repurchased	(99,528)	(740)	—	(1,260)	—	(2,000)
Excise tax on stock repurchased	—	(17)	—	—	—	(17)
Cash dividends - \$0.23 per share	—	—	—	(3,407)	—	(3,407)
Balance, September 30, 2023	<u>14,702,079</u>	<u>\$ 109,638</u>	<u>\$ 4,934</u>	<u>\$ 256,201</u>	<u>\$ (61,914)</u>	<u>\$ 308,859</u>
Balance, June 30, 2024	14,466,873	\$ 107,929	\$ 5,336	\$ 267,478	\$ (30,723)	\$ 350,020
Net income	—	—	—	10,603	—	10,603
Other comprehensive gain, net of tax	—	—	—	—	2,148	2,148
Stock options exercised, net of shares surrendered for cashless exercises	27,449	573	(69)	—	—	504
Restricted shares withheld for taxes	(10,138)	(76)	—	(206)	—	(282)
Restricted stock forfeited / cancelled	(19,919)	—	—	—	—	—
Restricted stock vested in period	—	381	(381)	—	—	—
Stock-based compensation - restricted stock	—	—	377	—	—	377
Stock repurchased	(49,704)	(371)	—	(869)	—	(1,240)
Excise tax on stock repurchased	—	(1)	—	—	—	(1)
Cash dividends - \$0.24 per share	—	—	—	(3,431)	—	(3,431)
Balance, September 30, 2024	<u>14,414,561</u>	<u>\$ 108,435</u>	<u>\$ 5,263</u>	<u>\$ 273,575</u>	<u>\$ (28,575)</u>	<u>\$ 358,698</u>

The accompanying notes are an integral part of these consolidated financial statements.

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SIERRA BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX NINE MONTHS ENDED JUNE SEPTEMBER 30, 2024 AND 2023
(dollars in thousands, except per share data, unaudited)

	Common Stock		Additional		Accumulated	
					Other	
	Shares	Amount	Paid In Capital	Retained Earnings	Comprehensive Loss	Shareholders' Equity

	Shares	Amount	Capital	Earnings	Loss	Equity
Balance, December 31, 2022	15,170,372	\$ 112,928	\$ 4,148	\$ 243,082	\$ (56,576)	\$ 303,582
Net income	—	—	—	18,670	—	18,670
Other comprehensive gain, net of tax	—	—	—	—	65	65
Restricted stock granted	29,064	—	—	—	—	—
Restricted stock surrendered due to employee tax liability	(1,764)	(13)	—	(23)	—	(36)
Restricted stock forfeited / cancelled	(4,370)	—	—	—	—	—
Restricted stock vested in period	—	80	(80)	—	—	—
Stock-based compensation - stock options	—	—	37	—	—	37
Stock-based compensation - restricted stock	—	—	782	—	—	782
Stock repurchased	(381,566)	(2,834)	—	(3,656)	—	(6,490)
Excise tax on stock repurchased	—	(64)	—	—	—	(64)
Cash dividends - \$0.46 per share	—	—	—	(6,954)	—	(6,954)
Balance, June 30, 2023	14,811,736	\$ 110,097	\$ 4,887	\$ 251,119	\$ (56,511)	\$ 309,592
Balance, December 31, 2023	14,793,832	\$ 110,446	\$ 4,581	\$ 259,050	\$ (35,980)	\$ 338,097
Net income	—	—	—	19,593	—	19,593
Other comprehensive gain, net of tax	—	—	—	—	5,257	5,257
Restricted stock granted	36,114	—	—	—	—	—
Restricted shares withheld for taxes	(5,062)	(38)	—	(64)	—	(102)
Restricted stock forfeited / cancelled	(906)	—	—	—	—	—
Restricted stock vested in period	—	253	(253)	—	—	—
Stock-based compensation - stock options	—	—	25	—	—	25
Stock-based compensation - restricted stock	—	—	983	—	—	983
Stock repurchased	(357,105)	(2,663)	—	(4,353)	—	(7,016)
Excise tax on stock repurchased	—	(69)	—	—	—	(69)
Cash dividends - \$0.46 per share	—	—	—	(6,748)	—	(6,748)
Balance, June 30, 2024	14,466,873	\$ 107,929	\$ 5,336	\$ 267,478	\$ (30,723)	\$ 350,020

	Common Stock		Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shareholders' Equity
	Shares	Amount	Capital	Earnings	Loss	Equity
Balance, December 31, 2022	15,170,372	\$ 112,928	\$ 4,148	\$ 243,082	\$ (56,576)	\$ 303,582
Net income	—	—	—	28,555	—	28,555
Other comprehensive loss, net of tax	—	—	—	—	(5,338)	(5,338)
Restricted stock granted	29,064	—	—	—	—	—
Restricted stock surrendered due to employee tax liability	(11,893)	(89)	—	(159)	—	(248)
Restricted stock forfeited / cancelled	(4,370)	—	—	—	—	—
Restricted stock vested in period	—	454	(454)	—	—	—
Stock-based compensation - stock options	—	—	53	—	—	53
Stock-based compensation - restricted stock	—	—	1,187	—	—	1,187
Stock repurchased	(481,094)	(3,574)	—	(4,916)	—	(8,490)
Excise tax on stock repurchased	—	(81)	—	—	—	(81)
Cash dividends - \$0.69 per share	—	—	—	(10,361)	—	(10,361)
Balance, September 31, 2023	14,702,079	\$ 109,638	\$ 4,934	\$ 256,201	\$ (61,914)	\$ 308,859
Balance, December 31, 2023	14,793,832	\$ 110,446	\$ 4,581	\$ 259,050	\$ (35,980)	\$ 338,097
Net income	—	—	—	30,196	—	30,196
Other comprehensive gain, net of tax	—	—	—	—	7,405	7,405
Stock options exercised, net of shares surrendered for cashless exercises	27,449	573	(69)	—	—	504
Restricted stock granted	36,114	—	—	—	—	—
Restricted shares withheld for taxes	(15,200)	(114)	—	(269)	—	(383)

Restricted stock forfeited / cancelled	(20,825)	—	—	—	—	—
Restricted stock vested in period	—	634	(634)	—	—	—
Stock-based compensation - stock options	—	—	25	—	—	25
Stock-based compensation - restricted stock	—	—	1,360	—	—	1,360
Stock repurchased	(406,809)	(3,034)	—	(5,223)	—	(8,257)
Excise tax on stock repurchased	—	(70)	—	—	—	(70)
Cash dividends - \$0.70 per share	—	—	—	(10,179)	—	(10,179)
Balance, September 30, 2024	<u>14,414,561</u>	<u>\$ 108,435</u>	<u>\$ 5,263</u>	<u>\$ 273,575</u>	<u>\$ (28,575)</u>	<u>\$ 358,698</u>

The accompanying notes are an integral part of these consolidated financial statements.

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SIERRA BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX NINE MONTHS ENDED JUNE SEPTEMBER 30, 2024, AND 2023
(dollars in thousands, unaudited)

	Six months ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 19,593	\$ 18,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on sales of securities	2,883	(396)
Realized gain on securities transaction	(66)	—
Gain on disposal of fixed assets	(3,799)	(14)
Stock-based compensation expense	1,008	819
Provision for credit losses on loans	1,018	327
Benefit for credit losses on held-to-maturity securities	—	(47)
Depreciation and amortization	1,057	1,206
Net amortization on securities premiums and discounts	614	1,484
Net accretion of premiums/discounts for loans acquired	(158)	(160)
Increase in cash surrender value of life insurance policies	(1,738)	(830)
Amortization of core deposit intangible	438	438
Increase in interest receivable and other assets	(11,614)	(301)
(Decrease) increase in other liabilities	(2,291)	4,315
Deferred income tax benefit	(289)	(231)
Decrease in value of restricted bank equity securities	293	291
Amortization of debt issuance costs	44	45
Net amortization of partnership investment	608	244
Net cash provided by operating activities	<u>7,601</u>	<u>25,860</u>
Cash flows from investing activities:		

Maturities and calls of securities available for sale	35,713	63,481
Proceeds from sales of securities available for sale	233,187	25,676
Purchases of securities available for sale	(29,126)	(197,153)
Principal pay downs on securities available for sale	73,852	22,836
Net purchases of FHLB stock	—	(1,929)
Loan originations and payments, net	(149,884)	(41,864)
Purchases of premises and equipment	(787)	(722)
Proceeds from sale of premises and equipment	4,518	25
Proceeds from sales of foreclosed assets	2,732	—
Purchase of bank-owned life insurance	(175)	(71)
Proceeds from BOLI death benefit	54	345
Net cash provided by (used in) investing activities	170,084	(129,376)
Cash flows from financing activities:		
Increase in deposits	181,187	72,595
(Decrease) increase in Fed funds purchased	(130,000)	40,000
Decrease in short-term Federal Home Loan Bank advances	(150,500)	(13,800)
Proceeds from long-term Federal Home Loan Bank advances and other debt	—	80,000
Increase (decrease) in customer repurchase agreements	40,882	(35,447)
Cash dividends paid	(6,748)	(6,954)
Repurchases of common stock	(7,118)	(6,526)
Net cash (used in) provided by financing activities	(72,297)	129,868
Increase in cash and cash equivalents	105,388	26,352
Cash and cash equivalents		
Beginning of period	78,602	77,131
End of period	<u>\$ 183,990</u>	<u>\$ 103,483</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 23,140	\$ 19,536
Income taxes paid	\$ 6,721	\$ 5,155
Supplemental schedule of noncash investing and financing activities:		
Real estate acquired through foreclosure	\$ 2,732	\$ 15,406
Nine months ended September 30,		
	2024	2023
Cash flows from operating activities:		
Net income	\$ 30,196	\$ 28,555
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on sales of securities	2,810	(396)
Realized gain on securities transaction	(66)	—
Gain on disposal of fixed assets	(3,799)	(15)
Stock-based compensation expense	1,385	1,240
Provision for credit losses on loans	2,258	444
Benefit for credit losses on held-to-maturity securities	(1)	(47)
Depreciation and amortization	1,581	1,787
Net amortization on securities premiums and discounts	822	2,199
Net accretion of premiums/discounts for loans acquired	(152)	(232)
Increase in cash surrender value of life insurance policies	(2,278)	(1,388)
Amortization of core deposit intangible	619	657
Increase in interest receivable and other assets	(8,690)	(1,880)
Decrease in other liabilities	8,830	14,105
Deferred income tax benefit	(425)	(347)
Decrease in value of restricted bank equity securities	293	291
Amortization of debt issuance costs	67	67
Net amortization of partnership investment	<u>1,556</u>	<u>453</u>

Net cash provided by operating activities	35,006	45,493
Cash flows from investing activities:		
Maturities and calls of securities available-for-sale	82,070	65,581
Proceeds from sales of securities available-for-sale	233,187	25,676
Purchases of securities available-for-sale	(109,481)	(197,153)
Principal pay downs on securities available-for-sale	125,150	34,445
Net purchases of FHLB stock	—	(1,929)
Loan originations and payments, net	(236,269)	(67,519)
Purchases of premises and equipment	(905)	(1,112)
Proceeds from sale of premises and equipment	4,517	26
Proceeds from sales of foreclosed assets	2,732	19,151
Purchase of bank-owned life insurance	(491)	(99)
Investments in variable interest entities	(2,196)	(1,626)
Proceeds from bank -owned life insurance death benefit	341	2,324
Net cash provided by (used in) investing activities	98,655	(122,235)
Cash flows from financing activities:		
Increase in deposits	200,936	23,556
(Decrease) increase in Fed funds purchased	(130,000)	10,000
Decrease (increase) in short-term Federal Home Loan Bank advances	(150,500)	8,000
Proceeds from long-term Federal Home Loan Bank advances and other debt	—	80,000
Increase (decrease) in customer repurchase agreements	18,413	(14,304)
Cash dividends paid	(10,179)	(10,361)
Repurchases of common stock	(8,640)	(8,738)
Stock options exercised	504	—
Net cash (used in) provided by financing activities	(79,466)	88,153
Increase in cash and cash equivalents	54,195	11,411
Cash and cash equivalents		
Beginning of period	78,602	77,131
End of period	\$ 132,797	\$ 88,542
Supplemental disclosure of cash flow information:		
Interest paid	\$ 37,173	\$ 33,993
Income taxes paid	\$ 7,871	\$ 7,455
Supplemental schedule of noncash investing and financing activities:		
Real estate acquired through foreclosure	\$ 2,732	\$ 15,406

The accompanying notes are an integral part of these consolidated financial statements.

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SIERRA BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2024
(Unaudited)

Note 1 – The Business of Sierra Bancorp

Sierra Bancorp (the “Company”) is a California corporation headquartered in Porterville, California, and is a registered bank holding company under federal banking laws. The Company was formed to serve as the holding company for Bank of the Sierra (the “Bank”) and has been the Company’s sole shareholder since August 2001. The Company exists primarily for the purpose of holding the stock of the Bank and of such other subsidiaries it may acquire or establish. As of **June 30, 2024** **September 30, 2024**, the Company’s only other subsidiaries were Sierra Statutory Trust II, Sierra Capital Trust III, and Coast Bancorp Statutory Trust II, which were formed solely to facilitate the issuance of capital trust pass-through securities (“TRUPS”). Pursuant to the Financial Accounting Standards Board (“FASB”) standard on the consolidation of variable interest entities, these trusts are not reflected on a consolidated basis in the Company’s financial statements. References herein to the “Company” include Sierra Bancorp and its consolidated subsidiary, the Bank, unless the context indicates otherwise.

Bank of the Sierra, a California state-chartered bank headquartered in Porterville, California, offers a wide range of retail and commercial banking services via branch offices located throughout California’s South San Joaquin Valley, the Central Coast, Ventura County, the Sacramento area, and neighboring communities. The Bank was incorporated in September 1977, and opened for business in January 1978 as a one-branch bank with \$1.5 million in capital. **Our** **The Company’s** growth in the ensuing years has largely been organic in nature but includes four whole-bank acquisitions: Sierra National Bank in 2000, Santa Clara Valley Bank in 2014, Coast National Bank in 2016, and Ojai Community Bank in October 2017. As of the filing date of this report the Bank operates 35 full-service branches and an online branch and maintains ATMs at all but one **of our** **branch locations** **location** as well as at seven non-branch locations. Moreover, the Bank has specialized lending units which focus on agricultural borrowers, commercial real estate, and mortgage warehouse lending. To support organic growth in the agricultural and commercial lending sectors the Bank opened a loan production office in Templeton, CA in April 2022. In addition, the Bank maintains an administrative office in Roseville, CA. **The** **Company** had total assets of \$3.7 billion at **June 30, 2024**, **and for a number of years we have claimed the distinction of being the largest bank headquartered in the South San Joaquin Valley.** **September 30, 2024**. The Company’s deposit accounts, which totaled **\$2.9 billion** **\$3.0 billion** at **June 30, 2024** **September 30, 2024**, are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to maximum insurable amounts.

Note 2 – Basis of Presentation

The accompanying interim unaudited consolidated financial statements have been prepared in a condensed format as allowed under U.S. generally accepted accounting principles (“GAAP”). Therefore, these financial statements do not include all of the information and footnotes required for complete, audited financial statements as presented in the Company’s Annual Report on Form 10-K. The information furnished in these interim statements reflects all adjustments that are, in the opinion of Management, necessary for a fair statement of the results for such periods. Such adjustments can generally be considered as normal and recurring unless otherwise disclosed in this Form 10-Q. In preparing the accompanying financial statements, Management has taken subsequent events into consideration, through **August 5, 2024** **November 7, 2024**, and recognized them where appropriate. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter, or for the full year. Certain amounts reported for 2023 have been reclassified to be consistent with the reporting for 2024, none of which impacted net income or shareholders’ equity. The interim financial information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission (the “SEC”).

Note 3 – Current Accounting Developments

In March 2023, the FASB issued **ASU No. 2023-02, “Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.”** ASU 2023-02 is intended to improve the accounting and disclosures for investments in tax credit structures. ASU 2023-02 allows entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the

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program giving rise to the related income tax credits. Previously, this method was only available for qualifying tax equity investments in low-income housing tax credit structures. ASU 2023-02 was effective for the Company on January 1, 2024, and its adoption did not have a

significant effect on the Company's financial statements.

On October 9, 2023, the FASB issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification of Initiative." ASU 2023-06 amends the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Codification (the "Codification"). The ASU was issued in response to the SEC's August 2018 final rule that updated and simplified disclosure requirements that the SEC believed were "redundant, duplicative, overlapping, outdated, or superseded." The new guidance is intended to align U.S. GAAP requirements with those of the SEC and to facilitate the application of U.S. GAAP for all entities. ASU 2023-06 applies to all reporting entities within the scope of the amended subtopics. Note that some of the amendments introduced by the ASU are technical corrections or clarifications of the FASB's current disclosure or presentation requirements. The effective date for each amendment of ASU 2023-06 will be the date on which the SEC's removal of that related disclosure requirement from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The Company will apply the amendments in ASU 2023-06 prospectively after the effective dates. The adoption of this standard is not expected to have a significant effect on the Company's financial statements.

In November 2023, the FASB issued ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." ASU 2023-07 expands segment disclosure requirements for public entities to require disclosure of significant segment expenses and other segment items on an annual and interim basis and to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. ASU 2023-07 was adopted by the Company on January 1, 2024, and did not have a significant impact on the financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." ASU 2023-09 requires public business entities to disclose in their rate reconciliation table additional categories of information about federal, state, and foreign income taxes and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. ASU 2023-09 also requires all entities to disclose income taxes paid, net of refunds, disaggregated by federal, state, and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold, among other things. ASU 2023-09 is effective for **us the Company** on January 1, 2025, though early adoption is permitted. ASU 2023-09 is not expected to have a significant impact on the financial statements.

Note 4 – Share Based Compensation

On March 17, 2023, the Company's Board of Directors approved and adopted the 2023 Equity Compensation Plan (the "2023 Plan"), which became effective May 24, 2023, the date approved by the Company's shareholders. The 2023 Plan replaced the Company's 2017 Stock Incentive Plan (the "2017 Plan"). Options to purchase **201,800** **194,000** shares granted under the 2017 Plan and options to purchase **130,649** **106,800** shares that were granted under the 2007 Plan were still outstanding as of **June 30, 2024** **September 30, 2024**, and remain unaffected by that plan's expiration. The 2023 Plan provides for the issuance of various types of equity awards, including options, stock appreciation rights, restricted stock awards, restricted share units, performance share awards, dividend equivalents, or any combination thereof. Such awards may be granted to officers and employees as well as non-employee directors, which **awards** may be granted on such terms and conditions as are established by the Board of Directors or the Compensation Committee in its discretion. The total number of shares of the Company's authorized but unissued stock reserved for issuance pursuant to awards under the 2023 Plan was 360,000 shares, and the number remaining available for grant as of **June 30, 2024** **September 30, 2024**, was **260,170** **306,052**. Any unexercised, unvested, or undistributed portion of any expired, cancelled, terminated, or forfeited awards under the Company's 2017 Plan are added to the number of shares available to grant under the 2023 Plan. There were 92,882 unvested Restricted Stock Awards issued under the 2017 Plan at **September 30, 2024** and are included in shares outstanding. The potential dilutive impact of unexercised stock options and unvested restricted stock is discussed below in Note 5, Earnings per Share.

Pursuant to FASB's standards on stock compensation, the value of each stock option and restricted stock award is reflected in **our the** income statement as employee compensation or directors' expense by amortizing its grant date fair value over the

vesting period of the option or award. The Company utilized a Black-Scholes model to determine grant date fair values for options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Forfeitures are reflected in compensation costs as they occur for both types of awards. A pre-tax charge of \$0.5 million

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\$0.4 million was reflected in the Company's income statement during the second third quarter of 2024 and \$0.4 million \$0.3 million during the second third quarter of 2023, as expense related to stock options and restricted stock awards. For the first half nine months of 2024 and 2023, the charges totaled \$1.0 million \$1.4 million and \$0.8 million \$1.2 million, respectively.

Restricted Stock Grants

The Company's Restricted Stock Awards are awards of either time-vested or performance-based shares. The Restricted Stock Awards are non-transferrable shares of common stock and are available to be granted to the Company's employees and directors. The vesting period of Restricted Stock Awards is determined at the time the awards are issued, and different awards may have different vesting terms or performance measures; provided, however, that no installment of any Restricted Stock Award shall become vested less than one year from the grant date. Restricted Stock Awards are valued utilizing the fair value of the Company's stock at the grant date. These awards are expensed on a straight-line basis over the vesting period and consider the probability of meeting the performance criteria. There were 36,114 shares granted to employees of the Company during the first six nine months of 2024. As of June 30, 2024 September 30, 2024, there was \$2.9 million \$2.2 million of unamortized compensation cost related to unvested Restricted Stock Awards granted under the 2017 plan and 2023 plans. That cost is expected to be amortized over a weighted average period of 2.1 years.

The Company's restricted stock award activity for the six nine months ended June 30, 2024 September 30, 2024, and 2023 is summarized below (unaudited):

	Six months ended June 30,				Nine months ended September 30,			
	2024		2023		2024		2023	
	Weighted		Weighted		Weighted		Weighted	
	Average		Average		Average		Average	
	Grant-Date		Grant-Date		Grant-Date		Grant-Date	
	Shares	Fair Value	Shares	Fair Value	Shares	Value	Shares	Value
Unvested shares, January 1,	238,179	\$ 20.30	175,619	\$ 21.42	238,179	\$ 20.30	175,619	\$ 21.42
Granted	36,114	19.10	29,064	21.50	36,114	19.10	29,064	21.50
Vested	(11,224)	22.57	(3,162)	25.30	(31,222)	19.64	(23,675)	19.17
Forfeited	(906)	24.26	(4,370)	22.64	(21,185)	20.39	(4,370)	22.79
Unvested shares, June 30,	262,163	\$ 20.00	197,151	\$ 21.34				
Unvested shares, September 30,					221,886	\$ 20.18	176,638	\$ 21.72

Stock Option Grants

The Company has issued equity instruments in the form of Incentive Stock Options and Nonqualified Stock Options to certain officers and directors. No options have been granted since 2020, but the Company could elect

to issue under the 2023 Plan. The exercise price of each stock option is determined at the time of the grant and may be no less than 100% of the fair market value of such stock at the time the option is granted.

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The Company's stock option activity during the **six nine** months ended **June 30, 2024** **September 30, 2024**, and 2023 are summarized below (dollars in thousands, except per share data, unaudited):

	Six months ended June 30,								Nine mont			
	2024				2023				2024			
	Weighted				Weighted				Weighted			
	Average				Average				Average			
	Remaining				Remaining				Remaining			
	Contractual	Aggregate			Contractual	Aggregate			Contractual	Agg		
	Shares	Exercise Price	Term (in years)	Intrinsic Value (1)	Shares	Exercise Price	Term (in years)	Intrinsic Value (1)	Shares	Exercise Price	Term (in years)	Val
Outstanding at January 1,	343,449	\$ 25.02		\$ 447	352,249	\$ 25.06		\$ 348	343,449	\$ 25.02		\$
Exercised	—	\$ —		\$ —	—	\$ —		\$ —	(27,449)	\$ 18.38		\$
Forfeited/Expired	(11,000)	\$ 27.43		\$ —	(4,000)	\$ 27.49		\$ —	(15,200)	\$ 27.34		\$
Outstanding at June 30,	332,449	\$ 24.94	3.72	\$ 433	348,249	\$ 25.03	4.74	\$ 23				
Exercisable at June 30,	322,249	\$ 24.87	3.65	\$ 433	323,849	\$ 24.87	4.60	\$ 23				
Outstanding at September 30,									300,800	\$ 25.51	3.65	\$
Exercisable at September 30,									294,800	\$ 25.48	3.62	\$

(1) The aggregate intrinsic value of stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the **option**) **option** that would have been received by the option holders had all option holders exercised their options on **June 30, 2024**, the **last day of the period**. This amount changes based on changes in the market value of the Company's stock.

Note 5 – Earnings per Share

The computation of earnings per share, as presented in the Consolidated Statements of Income, is based on the weighted average number of shares outstanding during each period, excluding unvested restricted stock awards. There were **14,300,267** **14,188,051** weighted average shares outstanding during the **second third** quarter of 2024 and **14,735,568** **14,583,132** during the **second third** quarter of 2023, while there were **14,404,368** **14,331,032** weighted average shares outstanding during the first **six nine** months of 2024 and **14,853,052** **14,762,231** during the first **six nine** months of 2023.

Diluted earnings per share calculations include the effect of the potential issuance of common shares, which for the Company is limited to shares that would be issued on the exercise of "in-the-money" stock options, and unvested restricted stock awards. For the **second third** quarter of 2024, calculations under the treasury stock method resulted in the equivalent of **81,159** **147,655** shares being added to basic weighted average shares outstanding for purposes of determining diluted earnings per share, while **a weighted average of 260,924 zero** shares were excluded from the calculation **because they were due to being** underwater and thus anti-dilutive. For the **second third** quarter of 2023 the equivalent of **19,196** **53,345** shares were added in calculating diluted earnings per share, while **405,229** **278,374** anti-dilutive shares were not factored into the computation. Likewise, for the first **half nine months** of 2024 the equivalent of **63,109** **106,754** shares were added to basic weighted average shares outstanding in calculating diluted earnings per share and a weighted average of **265,107 options** **255,414 shares** that

were anti-dilutive for the period were not included, compared to the addition of the equivalent of 22,456 29,465 shares and non-inclusion of 364,219 326,036 anti-dilutive options shares in calculating diluted earnings per share for first half nine months of 2023.

Note 6 – Comprehensive Income

As presented in the Consolidated Statements of Comprehensive Income, comprehensive income includes net income and other comprehensive income. The Company's only source of other comprehensive income is unrealized gains and losses on available-for-sale investment securities. Investment gains or losses that were realized and reflected in net income of the current period, which had previously been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose, are considered to be reclassification adjustments that are excluded from other comprehensive income in the current period.

Note 7 – Commitments and Contingent Liabilities

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business. Those financial instruments currently consist of unused commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by counterparties for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making

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commitments and issuing letters of credit as it does for originating loans included on the balance sheet. The following financial instruments represent off-balance-sheet credit risk (dollars in thousands):

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Commitments to extend credit	\$ 548,956	\$ 482,054	\$ 585,610	\$ 482,054
Standby letters of credit	\$ 5,290	\$ 5,040	\$ 5,041	\$ 5,040

Commitments to extend credit consist primarily of the unused or unfunded portions of the following: mortgage warehouse lines, home equity lines of credit, commercial real estate construction loans, where disbursements are made over the course of construction; commercial revolving lines of credit, unsecured personal lines of credit and formalized (disclosed) deposit account overdraft lines. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the unused portions of committed amounts do not necessarily represent future cash requirements. Standby letters of credit are issued by the Company to guarantee the performance of a customer to a third party, and the credit risk involved in issuing letters of credit is essentially the same as the risk involved in extending loans to customers. Included in unused commitments are mortgage warehouse lines which are in the form of repo lines and are unconditionally cancellable. Unused commitments on mortgage warehouse lines were \$232.4 million \$237.7 million at June 30, 2024 September 30, 2024, and \$204.5 million at December 31, 2023.

The allowance for credit losses, (ACL) on unfunded commitments is estimated using the same reserve or coverage rates calculated on collectively evaluated loans following the application of a funding rate to the amount of the unfunded commitment. The funding rate represents management's Management's estimate of the amount of the current unfunded commitment that will be funded over the remaining contractual life of the commitment and is based on historical data. The ACL on unfunded loan commitments is located in other liabilities while any related provision expense is recorded as a provision for credit losses.

At June 30, 2024 September 30, 2024, the Company was also utilizing a letter of credit in the amount of \$127.9 million issued by the Federal Home Loan Bank ("FHLB") on the Company's behalf as security for certain deposits and to facilitate certain credit arrangements with the Company's customers. That letter of credit is backed by loans which are pledged to the FHLB by the Company.

The Company is subject to loss contingencies, including claims and legal actions arising in the ordinary course of business, which are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not

believe there are such matters that will have a material effect on the financial statements.

Note 8 – Fair Value Disclosures and Reporting and Fair Value Measurements

FASB's standards on financial instruments, and on fair value measurements and disclosures, require public business entities to disclose in their financial statement footnotes the estimated fair values of financial instruments. In addition to disclosure requirements, FASB's standard on investments requires that our debt securities that are classified as available for sale available-for-sale and any equity securities which have readily determinable fair values be measured and reported at fair value in our the statement of financial position. Certain individually identified loans are also reported at fair value, as explained in greater detail below, and foreclosed assets are carried at the lower of cost or fair value. FASB's standard on financial instruments permits companies to report certain other financial assets and liabilities at fair value, but the Company has not elected the fair value option for any of those financial instruments.

Fair value measurement and disclosure standards also establish a framework for measuring fair values. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Further, the standards establish a fair value hierarchy that encourages an entity to maximize the use of observable inputs and limit the use of unobservable inputs when measuring fair values. The standards describe three levels of inputs that may be used to measure fair values:

- **Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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- **Level 2:** Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- **Level 3:** Significant unobservable inputs that reflect a company's own assumptions about the factors that market participants would likely consider in pricing an asset or liability.

Fair value estimates are made at a specific point in time based on relevant market data and information about the financial instruments. Fair value disclosures for deposits include demand deposits, which are, by definition, equal to the amount payable on demand at the reporting date. Fair value calculations for loans reflect exit pricing and incorporate our Management's assumptions with regard to the impact of prepayments on future cash flows and credit quality adjustments based on risk characteristics of various financial instruments, among other things. Since the estimates are subjective and involve uncertainties and matters of significant judgment they cannot be determined with precision, and changes in assumptions could significantly alter the fair values presented.

Carrying amounts and estimated fair values for the Company's financial instruments are as follows, as of the dates noted:

Fair Value of Financial Instruments

(dollars in thousands, unaudited)

	June 30, 2024				September 30, 2024			
	Fair Value Measurements				Fair Value Measurements			
	Quoted Prices in		Significant	Significant	Quoted Prices in		Significant	
	Active Markets for		Observable	Unobservable	Active Markets for		Observable	U
	Carrying	Identical Assets	Inputs	Inputs	Carrying	Identical Assets	Inputs	
	Amount	(Level 1)	(Level 2)	(Level 3)	Total	Amount	(Level 1)	(Level 2)
Financial assets:								
Financial assets:								
Financial assets:								
Financial assets:								
Financial assets:								
Financial assets:								

	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and cash equivalents	\$ 78,602	\$ 78,602	\$ —	\$ —	\$ 78,602
Investment securities available-for-sale	\$ 1,019,201	\$ —	\$ 967,161	\$ 52,040	\$ 1,019,201
Investment securities held-to-maturity	\$ 320,057	\$ —	\$ 314,924	\$ —	\$ 314,924
Loans, net	\$ 2,066,884	\$ —	\$ 5,889	\$ 1,918,654	\$ 1,924,543
Financial liabilities:					
Deposits	\$ 2,761,223	\$ 1,020,772	\$ 1,738,566	\$ —	\$ 2,759,338
Repurchase agreements	\$ 107,121	\$ —	\$ 74,814	\$ —	\$ 74,814
Other borrowings	\$ 360,500	\$ —	\$ 357,900	\$ —	\$ 357,900
Long-term debt	\$ 49,304	\$ —	\$ 44,097	\$ —	\$ 44,097
Subordinated debentures	\$ 35,660	\$ —	\$ 35,423	\$ —	\$ 35,423

For financial asset categories that were carried on our the balance sheet at fair value as of June 30, 2024 September 30, 2024, and December 31, 2023, the Company used the following methods and significant assumptions:

- **Investment securities:** Fair values are determined by obtaining quoted prices on nationally recognized securities exchanges or by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities by relying on their relationship to other benchmark quoted securities.
- **Collateral-dependent Individually evaluated loans:** Collateral-dependent Individually evaluated loans are carried at measured based on the fair value of collateral when foreclosure is probable or repayment is expected through the sale or operation of collateral and borrower is experiencing financial difficulty.
- **Foreclosed assets:** Repossessed real estate (known as other real estate owned, or "OREO") and other foreclosed assets are carried at the lower of cost or fair value. Fair value is the appraised value less expected disposition costs for OREO; fair values for any other foreclosed assets are represented by estimated sales proceeds as determined using reasonably available sources. Foreclosed assets for which appraisals can be feasibly obtained are periodically measured for impairment using updated appraisals. Fair values for other foreclosed assets are adjusted as necessary, subsequent to a periodic re-evaluation of expected cash flows and the timing of resolution. If impairment is determined to exist, the book value of a foreclosed asset is immediately written down to its estimated impaired value through the income statement, thus the carrying amount is equal to the fair value and there is no valuation allowance.

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Assets reported at fair value on a recurring basis are summarized below:

Fair Value Measurements – Recurring

(dollars in thousands, unaudited)

	Fair Value Measurements at June 30, 2024, using					Fair Value Measurements at September 30, 2024, using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Realized Gain/(Loss) (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Re Gai (L
Securities:										
U.S. government agencies	\$ —	\$ 75,415	\$ —	\$ 75,415	\$ —	\$ —	\$ 61,031	\$ —	\$ 61,031	\$
Mortgage-backed securities	—	31,415	—	31,415	—	—	80,504	—	80,504	

State and political subdivisions	—	41,887	—	41,887	—	—	42,376	—	42,376				
Corporate bonds	—	—	55,605	55,605	—	—	—	56,357	56,357				
Collateralized loan obligations	—	512,465	—	512,465	—	—	466,042	—	466,042				
Total available-for-sale securities	\$	—	\$661,182	\$	55,605	\$716,787	\$	—	\$649,953	\$	56,357	\$706,310	\$

Fair Value Measurements at December 31, 2023, using							
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Realized Gain/(Loss) (Level 3)		
Securities:							
U.S. government agencies	\$ —	\$ 102,749	\$ —	\$ 102,749	\$ —		
Mortgage-backed securities	—	99,544	—	99,544	—		
State and political subdivisions	—	194,206	—	194,206	—		
Corporate bonds	—	—	52,040	52,040	—		
Collateralized loan obligations	—	570,662	—	570,662	—		
Total available-for-sale securities	\$ —	\$ 967,161	\$ 52,040	\$ 1,019,201	\$ —		

Fair Value Measurements - Level 3 Recurring

(dollars in thousands, unaudited)

	Corporate Bonds		Corporate Bonds	
	2024	2023	2024	2023
Balance of recurring Level 3 assets at January 1,	\$ 52,040	\$ 57,435	\$52,040	\$57,435
Total gains or (losses) for the period:				
Included in other comprehensive income	3,565	(5,147)	4,317	(5,200)
Balance of recurring Level 3 assets at June 30,	\$ 55,605	\$ 52,288		
Balance of recurring Level 3 assets at September 30,			\$56,357	\$52,235

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There were no assets reported at fair value on a nonrecurring basis at June 30, 2024. **Fair Value Measurements – Nonrecurring**

Assets reported at fair value on a nonrecurring basis at December 31, 2023 are summarized below (dollars (dollars in thousands, unaudited)).

Fair Value Measurements at September 30, 2024, using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Individually evaluated collateral-dependent loans				
Real estate:				
Commercial real estate	\$ —	\$ 2,255	\$ —	\$ 2,255

Total assets measured on a nonrecurring basis	\$	—	\$	2,255	\$	—	\$	2,255
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	Fair Value Measurements at December 31, 2023, using				Fair Value Measurements at Decemb		
	Quoted Prices in				Quoted Prices in		
	Active Markets for	Significant	Significant		Active Markets for	Significant	
	Identical Assets	Observable Inputs	Unobservable Inputs		Identical Assets	Observable Inputs	Unob
	(Level 1)	(Level 2)	(Level 3)	Total	(Level 1)	(Level 2)	Unob
Individually evaluated collateral-dependent loans							
Real estate:							
Residential real estate	\$	—	\$	—	\$	—	\$
Commercial real estate	—	5,889	—	5,889	\$	—	\$
Other construction/land	—	—	—	—			
Farmland	—	—	—	—			
Total real estate	—	5,889	—	5,889			
Other commercial	—	—	—	—			
Consumer loans	—	—	—	—			
Total collateral-dependent loans	\$	—	\$	5,889	\$	—	\$
Foreclosed assets	\$	—	\$	—	\$	—	\$
Total assets measured on a nonrecurring basis	\$	—	\$	5,889	\$	—	\$

The table above includes collateral-dependent loan balances for which a specific reserve has been established or on which a write-down has been taken. Information on the Company's total collateral-dependent loan balances and specific loss reserves associated with those balances is included in Note 10 below.

The unobservable inputs are based on Management's best estimates of appropriate discounts in arriving at fair market value. Adjusting any of those inputs could result in a significantly lower or higher fair value measurement. For example, an increase or decrease in actual loss rates would create a directionally opposite change in the fair value of unsecured individually identified loans.

Note 9 – Investments

Investment Securities

Pursuant to FASB's guidance on accounting for debt securities, **available for sale** **available-for-sale** securities are carried on the Company's financial statements at their estimated fair market values, with monthly tax-effected "mark-to-market" adjustments made vis-à-vis accumulated other comprehensive income in shareholders' equity. Held-to-maturity securities are carried on the Company's financial statements at their amortized cost, net of the allowance for credit losses. **Amortized cost is adjusted to the fair value of the security upon transfer to held-to-maturity.**

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The amortized cost, estimated fair value, and allowance for credit losses of available-for-sale and held-to-maturity investment securities are as follows:

Amortized Cost and Estimated Fair Value

(dollars in thousands, unaudited)

	June 30, 2024					September 30, 2024				
	Gross		Gross		Estimated Fair Value	Gross		Gross		Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses		Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	
Available-for-sale										
U.S. government agencies	\$ 75,577	\$ 4	\$ (166)	\$ —	\$ 75,415	\$ 60,886	\$ 157	\$ (12)	\$ —	\$ 60,943
Mortgage-backed securities	32,290	21	(896)	—	31,415	80,794	572	(862)	—	80,504
State and political subdivisions	48,987	40	(7,140)	—	41,887	48,190	73	(5,887)	—	42,376
Corporate bonds	65,332	—	(9,727)	—	55,605	65,360	—	(9,003)	—	56,357
Collateralized loan obligations	510,860	1,676	(71)	—	512,465	464,819	1,259	(36)	—	466,042
Total available-for-sale securities	\$733,046	\$ 1,741	\$ (18,000)	\$ —	\$ 716,787	\$720,049	\$ 2,061	\$ (15,800)	\$ —	\$ 706,310
	Gross		Gross		Estimated Fair Value	Gross		Gross		Estimated Fair Value
	Amortized Cost	Unrecognized Gains	Unrecognized Losses	Allowance for Credit Losses		Amortized Cost	Unrecognized Gains	Unrecognized Losses	Allowance for Credit Losses	
	Cost	Gains	Losses	Value		Cost	Gains	Losses	Value	
Held-to-maturity										
U.S. government agencies	\$ 5,005	\$ —	\$ (467)	\$ 4,538	\$ —	\$ 4,845	\$ —	\$ (446)	\$ 4,399	\$ —
Mortgage-backed securities	135,815	—	(13,277)	122,538	—	132,324	66	(8,153)	124,237	—
State and political subdivisions	172,075	410	1,112	173,597	(16)	171,817	5,650	—	177,467	(16)
Total held-to-maturity securities	\$312,895	\$ 410	\$ (12,632)	\$ 300,673	\$ (16)	\$308,986	\$ 5,716	\$ (8,599)	\$ 306,103	\$ (32)

	December 31, 2023				
	Gross		Gross		Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	
Available-for-sale					
U.S. government agencies	\$ 102,823	\$ 23	\$ (97)	\$ —	\$ 102,749
Mortgage-backed securities	100,745	21	(1,222)	—	99,544
State and political subdivisions	200,057	572	(6,423)	—	194,206
Corporate bonds	65,273	—	(13,233)	—	52,040
Collateralized loan obligations	573,027	1,113	(3,478)	—	570,662
Total available-for-sale securities	\$ 1,041,925	\$ 1,729	\$ (24,453)	\$ —	\$ 1,019,201
	Gross		Gross		Estimated Fair Value
	Amortized Cost	Unrecognized Gains	Unrecognized Losses	Allowance for Credit Losses	
	Cost	Gains	Losses	Value	
Held-to-maturity					
U.S. government agencies	\$ 5,522	\$ —	\$ (617)	\$ 4,905	\$ —
Mortgage-backed securities	142,295	—	(10,441)	131,854	—
State and political subdivisions	172,256	5,909	—	178,165	(16)
Total held-to-maturity securities	\$ 320,073	\$ 5,909	\$ (11,058)	\$ 314,924	\$ (16)

An unrealized loss of \$27.4 million \$26.8 million, on securities transferred from the available-for-sale to held-to-maturity categorization, remains as of June 30, 2024 September 30, 2024, and is included in accumulated other comprehensive income, net of tax. The remaining unrealized loss on the securities transferred from available-for-sale to held-to-maturity, will be accreted over the remaining term of the securities, with the amortized-cost basis of these securities and accumulated comprehensive income each increasing over time.

Because of the implicit and explicit guarantees of the Federal Government on the Agency and Mortgage-Backed securities there is no expectation of future losses on any of these securities. The Company's municipal bonds moved to the held-to-maturity designation all have credit ratings considered investment grade or equivalent. A discounted-cash-flow reserve calculation was performed upon the transfer of these securities into the held-to-maturity designation and is updated on a quarterly basis.

The Company elected the practical expedient available under the current expected credit losses ("CECL") accounting standard to exclude accrued interest receivable from the amortized cost basis of all categorizations of investment securities, and resultingly did not estimate reserves on accrued interest receivable balances, as any past due interest income is reversed on a timely basis. Accrued interest receivable is included in other assets on the Company's balance sheet and as of June 30, 2024,

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September 30, 2024, measured at \$9.4 million \$8.4 million and \$2.4 million \$1.7 million for available-for-sale securities and held-to-maturity securities, respectively. Accrued interest receivable as of December 31, 2023, on these same classes of investment securities measured at \$12.3 million and \$2.4 million, respectively. During the first half nine months of 2024 and 2023, no interest receivable on available-for-sale or held-to-maturity securities was reversed against interest income and the Company did not have any held-to-maturity debt securities past due.

A discounted-cash-flow reserve calculation is performed on securities designated as held-to-maturity on a quarterly basis. As of June 30, 2024 September 30, 2024, an allowance for credit losses of \$0.02 million \$15 thousand had been established on the Company's held-to-maturity portfolio, which is unchanged a slight decrease from the December 31, 2023, allowance for credit losses, losses of \$16 thousand.

The following table summarizes the amortized cost of held-to-maturity municipal bonds aggregated by nationally recognized statistical rating organizations ("NRSRO") credit rating:

Held-To-Maturity by Credit Rating

(dollars in thousands, unaudited)

	Held-To-Maturity		Held-To-Maturity	
	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
State and political subdivisions				
AAA/Aaa	\$ 57,772	\$ 57,792	\$ 59,424	\$ 57,792
AA/Aa	112,826	112,978	110,920	112,978
A/A2	537	542	535	542
Not rated	940	944	938	944
Total	\$ 172,075	\$ 172,256	\$ 171,817	\$ 172,256

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For available-for-sale debt securities in an unrealized loss position for which management has an intent to sell the security or considers it more likely-than-not that the security in question will be sold prior to a recovery of its amortized cost basis, the security will be written down to fair value through a direct charge to income. For the remainder of available-sale-debt securities in an unrealized loss position, which do not meet the previously outlined criteria, management evaluates whether the decline in fair value is a reflection of credit deterioration or other factors. In performing this evaluation, management considers the extent to which fair value has fallen below amortized cost, changes in ratings by rating agencies, and other information indicating a deterioration in repayment capacity of either the underlying issuer or the borrowers providing repayment capacity in a securitization. If management's evaluation indicates that a credit loss exists then a present value of the expected cash flows is calculated and compared to the amortized cost basis of the security in question and to the degree that the amortized cost basis exceeds the present value an allowance for credit loss ("ACL") is established, with the caveat that the maximum amount of the reserve on any individual security is the difference between the fair value and amortized cost balance of the security in question. Any unrealized loss that has not been recorded through an ACL is recognized in other comprehensive income.

The following table summarizes available-for-sale debt securities that were in an unrealized loss position for which an ACL has not been recorded, based on the length of time the individual securities have been in an unrealized loss position, including the number of available-for-sale debt securities in an unrealized loss position, as of the dates indicated below.

Investment Portfolio - Unrealized Losses

(dollars in thousands, unaudited)

	June 30, 2024								September 30, 2024							
	Less than twelve months				Twelve months or more				Less than twelve months				Twelve months or more			
	Gross		Gross		Gross		Gross		Gross		Gross		Gross		Gross	
	Number of Securities	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale																
U.S. government agencies	17	\$ (47)	\$ 32,611	\$ (119)	\$ 34,801	\$ (166)	\$ 67,412	1	\$ (12)	\$ 2,988	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage-backed securities	40	(81)	17,153	(815)	9,017	(896)	26,170	41	(383)	28,117	(479)	8,749	(479)	8,749	(479)	8,749
State and political subdivisions	52	(3)	1,512	(7,137)	35,104	(7,140)	36,616	48	—	273	(5,887)	36,084	(5,887)	36,084	(5,887)	36,084
Corporate bonds	51	—	—	(9,727)	55,604	(9,727)	55,604	51	(43)	1,949	(8,960)	54,408	(8,960)	54,408	(8,960)	54,408
Collateralized loan obligations	6	(27)	36,373	(44)	19,955	(71)	56,328	1	(36)	11,365	—	—	—	—	—	—
Total available-for-sale	166	\$ (158)	\$ 87,649	\$ (17,842)	\$ 154,481	\$ (18,000)	\$ 242,130	142	\$ (474)	\$ 44,692	\$ (15,326)	\$ 99,241	\$ (15,326)	\$ 99,241	\$ (15,326)	\$ 99,241

	December 31, 2023							
	Less than twelve months				Twelve months or more			
	Gross		Gross		Gross		Gross	
	Number of Securities	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale								
U.S. government agencies	14	\$ (97)	\$ 46,823	\$ —	\$ 3,929	\$ (97)	\$ 50,752	\$ (97)
Mortgage-backed securities	321	—	20	(1,222)	94,505	(1,222)	94,525	(1,222)
State and political subdivisions	201	(33)	6,950	(6,390)	125,283	(6,423)	132,233	(6,423)
Corporate bonds	51	(118)	2,316	(13,115)	49,724	(13,233)	52,040	(13,233)
Collateralized loan obligations	47	—	—	(3,478)	393,258	(3,478)	393,258	(3,478)
Total available-for-sale	634	\$ (248)	\$ 56,109	\$ (24,205)	\$ 666,699	\$ (24,453)	\$ 722,808	\$ (24,453)

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The table below summarizes the Company's gross realized gains and losses as well as gross proceeds from the sales of securities, for the periods indicated:

Investment Portfolio - Realized Gains/(Losses)

(dollars in thousands, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Proceeds from sales, calls and maturities of securities available for sale	\$ 2,000	\$ 52,944	\$ 266,900	\$ 89,157
Gross gains on sales, calls and maturities of securities available for sale	—	351	—	396
Gross losses on sales, calls and maturities of securities available for sale	—	—	(2,883)	—
Net (loss) gain on sale of securities available for sale	\$ —	\$ 351	\$ (\$2,883)	\$ 396

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Proceeds from sales, calls and maturities of securities available-for-sale	\$ 24,525	\$ 2,100	\$ 315,257	\$ 91,257
Gross gains on sales, calls and maturities of securities available-for-sale	73	—	—	396
Gross losses on sales, calls and maturities of securities available-for-sale	—	—	(2,810)	—
Net gain (loss) on sale of securities available-for-sale	\$ 73	\$ —	\$ (2,810)	\$ 396

The amortized cost and estimated fair value of investment securities available-for-sale and held-to-maturity at **June 30, 2024**, **September 30, 2024**, and December 31, 2023 (dollars in thousands), are shown below, grouped by the remaining time to contractual maturity dates. The expected life of investment securities may not be consistent with contractual maturity dates since the issuers of the securities might have the right to call or prepay obligations with or without penalties.

	June 30, 2024				September 30, 2024			
	Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing within one year	\$ 200	\$ 200	\$ 145	\$ 145	\$ 25,263	\$ 25,395	\$ —	\$ —
Maturing after one year through five years	24,033	23,784	2,361	2,314	19,009	18,829	2,735	2,720
Maturing after five years through ten years	110,772	101,085	19,331	17,837	77,856	68,866	18,732	17,592
Maturing after ten years	54,891	47,838	155,243	157,839	52,308	46,674	155,195	161,554
Securities not due at a single maturity date:								
Mortgage-backed securities	32,290	31,415	135,815	122,538	80,794	80,504	132,324	124,237
Collateralized loan obligations	510,860	512,465	—	—	464,819	466,042	—	—
Total	\$ 733,046	\$716,787	\$ 312,895	\$300,673	\$ 720,049	\$706,310	\$ 308,986	\$306,103

	December 31, 2023			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing within one year	\$ 583	\$ 582	\$ 145	\$ 145
Maturing after one year through five years	40,187	39,916	2,413	2,384
Maturing after five years through ten years	156,541	143,516	19,895	18,350
Maturing after ten years	170,842	164,981	155,325	162,191

Securities not due at a single maturity date:				
Mortgage-backed securities	100,745	99,544	142,295	131,854
Collateralized loan obligations	573,027	570,662	—	—
Total	\$ 1,041,925	\$ 1,019,201	\$ 320,073	\$ 314,924

At ~~June 30, 2024~~ September 30, 2024, the Company's investment portfolio included ~~226~~ 223 municipal bonds issued by ~~191~~ 188 different government municipalities and agencies located within 28 different states, with an aggregate fair value of ~~\$215.5 million~~ \$219.8 million. The largest exposure to any single municipality or agency was a combined ~~\$5.2 million~~ \$5.3 million (fair value) in general obligation bonds issued by the City of New York (NY). In addition, the Company owned 51 subordinated debentures issued by bank-holding companies totaling ~~\$55.6 million~~ \$56.4 million (fair value).

At December 31, 2023, the Company's investment portfolio included 485 municipal bonds issued by 398 different government municipalities and agencies located within 36 states, with an aggregate fair value of \$372.4 million. The largest exposure to any single municipality or agency was a combined \$5.3 million (fair value) in general obligation bonds issued by the City of New York (NY). In addition, the Company owned 51 subordinated debentures issued by bank-holding companies totaling \$52.0 million (fair value).

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issued by the City of New York (NY). In addition, the company owned 51 subordinated debentures issued by bank-holding companies totaling \$52.0 million (fair value).

The Company's investments in bonds issued by corporations, states, municipalities, and political subdivisions are evaluated in accordance with Financial Institution Letter 48-2012, issued by the FDIC, "Revised Standards of Creditworthiness for Investment Securities," and other regulatory guidance. Credit ratings are considered in our Management's analysis only as a guide to the historical default rate associated with similarly rated bonds. There have been no significant differences in our internal analyses compared with the ratings assigned by the third-party credit rating agencies.

The following table summarizes the amortized cost and fair values of general obligation and revenue bonds in the Company's investment securities portfolio at the indicated dates, identifying the state in which the issuing municipality or agency operates for our the Company's largest geographic concentrations:

Revenue and General Obligation Bonds by Location

(dollars in thousands, unaudited)

	June 30, 2024		December 31, 2023		September 30, 2024		December 31, 2023	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
General obligation bonds								
<i>State of issuance</i>								
Texas	\$ 83,400	\$ 81,144	\$ 146,215	\$ 146,589	\$ 82,821	\$ 82,250	\$ 146,215	\$ 146,589
California	51,722	48,693	63,316	61,048	51,285	49,618	63,316	61,048
Other (20 & 26 states, respectively)	60,478	60,727	115,148	117,006				
Other (20 and 26 states, respectively)					60,449	62,249	115,148	117,006
Total general obligation bonds	195,600	190,564	324,679	324,643	194,555	194,117	324,679	324,643
Revenue bonds								
<i>State of issuance</i>								
Texas	5,437	5,344	8,850	8,899	5,436	5,450	8,850	8,899
California	3,573	3,476	3,794	3,735	3,575	3,570	3,794	3,735
Other (20 & 15 states, respectively)	16,452	16,100	34,990	35,094				

Other (20 and 15 states, respectively)					16,441	16,706	34,990	35,094
Total revenue bonds	25,462	24,920	47,634	47,728	25,452	25,726	47,634	47,728
Total obligations of states and political subdivisions	\$221,062	\$215,484	\$372,313	\$372,371	\$220,007	\$219,843	\$372,313	\$372,371

The revenue bonds in the Company's investment securities portfolios were issued by government municipalities and agencies to fund public services such as utilities (water, sewer, and power), educational facilities, and general public and economic improvements. The primary sources of revenue for these bonds are delineated in the table below, which shows the amortized cost and fair market values for the largest revenue concentrations as of the indicated dates.

Revenue Bonds by Type

(dollars in thousands, unaudited)

	June 30, 2024		December 31, 2023		September 30, 2024		December 31, 2023	
	Amortized	Fair Market	Amortized	Fair Market	Amortized	Fair Market	Amortized	Fair Market
	Cost	Value	Cost	Value	Cost	Value	Cost	Value
Revenue bonds								
<i>Revenue source:</i>								
Water	\$ 9,206	\$ 8,856	\$ 19,113	\$ 19,158	\$ 9,200	\$ 9,259	\$19,113	\$ 19,158
Lease	3,929	4,180	6,323	6,380	3,925	4,258	6,323	6,380
Sewer	3,609	3,765	6,070	6,312	4,094	3,849	6,070	6,312
Sales tax revenue	1,689	1,617	4,349	4,010	1,688	1,665	4,349	4,010
Local or GTD housing	1,031	848	—	—				
Local or guaranteed housing					1,030	875	—	—
Other (9 and 10 sources, respectively)	5,998	5,654	11,779	11,868	5,515	5,820	11,779	11,868
Total revenue bonds	<u>\$ 25,462</u>	<u>\$ 24,920</u>	<u>\$ 47,634</u>	<u>\$ 47,728</u>	<u>\$25,452</u>	<u>\$ 25,726</u>	<u>\$47,634</u>	<u>\$ 47,728</u>

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Low-Income Housing Tax Credit ("LIHTC") Fund Investments

The Company has the ability to invest in limited partnerships which own housing projects that qualify for federal and/or California state tax credits, by mandating a specified percentage of low-income tenants for each project. The primary

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investment return comes from tax credits that flow through to investors. Because rent levels are lower than standard market rents and the projects are generally highly leveraged, each project also typically generates tax-deductible operating losses that are allocated to the limited partners for tax purposes.

The Company currently has investments in seven different LIHTC fund limited partnerships made in 2014, 2015, two in 2022, one in 2023, and two in the second quarter of 2024, all of which were California-focused funds that help the Company meet its obligations under the Community

Reinvestment Act. We utilize The Company utilized the cost method of accounting for our LIHTC fund investments, under which we were initially record recorded on our the balance sheet an asset that represents the total cash expected to be invested over the life of the partnership. Any commitments or contingent commitments for future investment are reflected as a liability. The income statement reflects tax credits and any other tax benefits from these investments "below the line" within our income tax provision, while the initial book value of the investment is amortized on the proportional amortization method as a "below the line" expense, over the time period in which the tax credits and tax benefits are expected to be received.

As of June 30, 2024 September 30, 2024, our the Company's total LIHTC investment book balance was \$23.4 million \$22.8 million, which includes \$19.4 million \$19.1 million in remaining commitments for additional capital contributions. There were approximately \$0.8 million \$1.4 million in tax credits derived from our the Company's LIHTC investments that were recognized during the six nine months ended June 30, 2024 September 30, 2024, and "below the line" amortization expense of \$1.0 million \$1.6 million associated with those investments was recorded for the same time period. Our LIHTC investments are evaluated annually for potential impairment, and we have the Company concluded that the carrying value of the investments is stated fairly and is not impaired.

As of December 31, 2023, our the Company's total LIHTC investment book balance was \$14.4 million, which includes \$10.5 million in remaining commitments for additional capital contributions. There were \$0.7 million in tax credits derived from our LIHTC investments that were recognized during the year ended December 31, 2023, and "below the line" amortization expense of \$0.7 million associated with those investments was netted against pre-tax noninterest income for the same time period.

The Company's investments in qualified affordable housing projects, and small business investment companies meet the definition of a variable interest entity as the entities are structured such that the limited partner investors lack substantive voting rights. Pursuant to the FASB standard on the consolidation of variable interest entities, these investments are not reflected on a consolidated basis in the Company's financial statements.

Note 10 – Loans and Allowance for Credit Losses

The ACL on the loan portfolio is a valuation allowance deducted from the recorded balance in loans. Under CECL the ACL represents principal which is not expected to be collected over the contractual life of the loans, adjusted for expected prepayment. The ACL is increased by a provision for credit losses charged to expense, and by principal recovered on charged-off balances. It is reduced by principal charge-offs. The amount of the allowance is based on management's Management's evaluation of the collectability of the loan portfolio, using information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Adjustments are also made for changes in risk profile, credit concentrations, historical trends, and other economic conditions.

The Company elected the practical expedient available under CECL to exclude accrued interest receivable from the amortized cost basis of all categorizations of loans, and as a result did not estimate reserves on accrued interest receivable balances, as any past due interest income is reversed on a timely basis. Accrued interest receivable on loans of \$7.0 million \$7.7 million and \$5.6 million at June 30, 2024 September 30, 2024, and December 31, 2023, respectively is included in other assets on the Company's balance sheet.

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The following table presents loans by class as of June 30, 2024, and December 31, 2023. The majority of the disclosures in this footnote are prepared at the class level which is equivalent to the call report or call code classification. The final table in this section separates a roll forward of the Allowance for Credit Losses at the portfolio segment level.

Loan Distribution

(dollars in thousands, unaudited)

	June 30, 2024	December 31, 2023
Real estate:		
Residential real estate	\$ 396,819	\$ 412,063
Commercial real estate	1,316,754	1,328,224

Other construction/land	5,971	6,256
Farmland	80,807	67,276
Total real estate	1,800,351	1,813,819
Other commercial	156,650	156,272
Mortgage warehouse lines	274,059	116,000
Consumer loans	3,468	3,984
Subtotal	2,234,528	2,090,075
Net deferred loan fees and costs	288	309
Loans, amortized cost basis	2,234,816	2,090,384
Allowance for credit losses	(21,640)	(23,500)
Net Loans	\$ 2,213,176	\$ 2,066,884

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Loan Distribution

(dollars in thousands, unaudited)

	September 30, 2024	December 31, 2023
Real estate:		
Residential real estate	\$ 388,169	\$ 412,063
Commercial real estate	1,338,794	1,328,224
Other construction/land	5,611	6,256
Farmland	80,589	67,276
Total real estate	1,813,163	1,813,819
Other commercial	168,236	156,272
Mortgage warehouse lines	335,777	116,000
Consumer loans	3,453	3,984
Subtotal	2,320,629	2,090,075
Net deferred loan fees and costs	396	309
Loans, amortized cost basis	2,321,025	2,090,384
Allowance for credit losses	(22,710)	(23,500)
Net Loans	\$ 2,298,315	\$ 2,066,884

The Company places loans on nonaccrual status when management Management has determined that the full repayment of principal and collection of contractually agreed upon interest is unlikely or when the loan in question has become delinquent more than 90 days. The Company may decide that it is appropriate to continue to accrue interest on certain loans more than 90 days delinquent if they are well-secured by collateral and collection is in process. When a loan is placed on nonaccrual status, any accrued but uncollected interest for the loan is reversed out of interest income in the period in which the loan's status changed. For loans with an interest reserve, i.e., where loan proceeds are advanced to the borrower to make interest payments, all interest recognized from the inception of the loan is reversed when the loan is placed on nonaccrual. Once a loan is on nonaccrual status subsequent payments received from the customer are applied to principal, and no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required. Generally, loans are not restored to accrual status until the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The following tables present the amortized cost basis of nonaccrual loans, according to loan class, with and without individually evaluated reserves as of June 30, 2024, and December 31, 2023:

Nonaccrual Loans

(dollars in thousands, unaudited)

	June 30, 2024			
	Nonaccrual Loans			Loans Past Due 90+ Accruing
	With no allowance for credit loss	With an allowance for credit loss	Total	
Real estate:				
Residential real estate	\$ 67	\$ —	\$ 67	\$ —
Farmland	6,370	—	6,370	—
Total real estate	6,437	—	6,437	—
Other commercial	36	—	36	—
Total	\$ 6,473	\$ —	\$ 6,473	\$ —

	December 31, 2023			
	Nonaccrual Loans			Loans Past Due 90+ Accruing
	With no allowance for credit loss	With an allowance for credit loss	Total	
Real estate:				
Residential real estate	\$ 414	\$ —	\$ 414	\$ —
Commercial real estate	—	7,457	7,457	—
Total real estate	414	7,457	7,871	—
Other commercial	114	—	114	14
Total	\$ 528	\$ 7,457	\$ 7,985	\$ 14

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The Company did not recognize any interest on nonaccrual loans during the three or six months ended June 30, 2024, and would have recognized an additional \$0.3 million in interest income on nonaccrual loans during the second quarter and first half of 2024 had those loans not been designated as nonaccrual. Due to loans being placed on nonaccrual status, during the second quarter and first half 2024, \$0.001 million and \$0.1 million respectively, of interest receivable on loans was reversed against interest income.

The following table presents the amortized cost basis of collateral-dependent loans by class as of June 30, 2024, and December 31, 2023:

Collateral-Dependent Loans

(dollars in thousands, unaudited)

	June 30, 2024		December 31, 2023	
	Individual			
	Amortized Cost	Reserves	Amortized Cost	Individual Reserves
Real estate:				
Residential real estate	\$ 67	\$ —	\$ 414	\$ —
Commercial real estate	—	—	7,457	1,600

Farmland	6,370	—	—	—
Total real estate	6,437	—	7,871	1,600
Other commercial	—	—	114	—
Total Loans	\$ 6,437	\$ —	\$ 7,985	\$ 1,600

During the first six months of 2024 the amortized cost balance of collateral-dependent loans decreased by \$1.5 million due primarily to a single agriculture real estate secured loan, offset by the foreclosure and subsequent sale of an office real estate loan. The weighted average loan-to-value ratio of collateral-dependent loans was 89% at June 30, 2024. There were no collateral-dependent loans in the process of foreclosure as of June 30, 2024.

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Nonaccrual Loans

(dollars in thousands, unaudited)

	September 30, 2024			
	Nonaccrual Loans			Loans Past Due 90+ Accruing
	With no allowance for credit loss	With an allowance for credit loss	Total	
Real estate:				
Residential real estate	\$ 42	\$ —	\$ 42	\$ —
Commercial real estate	—	2,655	2,655	—
Farmland	7,528	—	7,528	—
Total real estate	7,570	2,655	10,225	—
Other commercial	—	123	123	—
Total	\$ 7,570	\$ 2,778	\$ 10,348	\$ —

	December 31, 2023			
	Nonaccrual Loans			Loans Past Due 90+ Accruing
	With no allowance for credit loss	With an allowance for credit loss	Total	
Real estate:				
Residential real estate	\$ 414	\$ —	\$ 414	\$ —
Commercial real estate	—	7,457	7,457	—
Total real estate	414	7,457	7,871	—
Other commercial	114	—	114	14
Total	\$ 528	\$ 7,457	\$ 7,985	\$ 14

The Company did not recognize any interest on nonaccrual loans during the three or nine months ended September 30, 2024, and would have recognized an additional \$0.1 million in interest income on nonaccrual loans during the third quarter and \$0.4 million during the first nine months of 2024 had those loans not been designated as nonaccrual. Due to loans being placed on nonaccrual status, during the third quarter and first nine months of 2024, \$0.1 million and \$0.2 million respectively, of interest receivable on loans was reversed against interest income.

The following tables table presents the aging of the amortized cost basis in past due of collateral-dependent loans according to by class as of June 30, 2024 September 30, 2024, and December 31, 2023:

Past Due Loans						
(dollars in thousands, unaudited)						
June 30, 2024						
	30-59 Days	60-89 Days	Loans Past Due		Loans not Past	
	Past Due	Past Due	90+ Days	Total Past Due	Due	Total Loans
Real estate:						
Residential real estate	\$ 58	\$ 324	\$ —	\$ 382	\$ 397,582	\$ 397,964
Commercial real estate	2,654	—	—	2,654	1,311,474	1,314,128
Other construction/land	—	—	—	—	5,990	5,990
Farmland	—	—	6,370	6,370	74,622	80,992
Total real estate	2,712	324	6,370	9,406	1,789,668	1,799,074
Other commercial	134	—	36	170	157,953	158,123
Mortgage warehouse lines	—	—	—	—	274,058	274,058
Consumer loans	2	—	—	2	3,559	3,561
Total Loans	\$ 2,848	\$ 324	\$ 6,406	\$ 9,578	\$ 2,225,238	\$ 2,234,816

Collateral-Dependent Loans										
(dollars in thousands, unaudited)										
	December 31, 2023						September 30, 2024			
	30-59	60-89	Loans				Amortized	Individual	Amortized	Individual
	Days Past Due	Days	Past Due	Total Past	Loans not Past					
	Due	Past Due	90+ Days	Due	Due	Total Loans				
Real estate:										
Residential real estate	\$ 1,768	\$ —	\$ —	\$ 1,768	\$ 411,494	\$ 413,262	\$ 42	\$ —	\$ 414	\$ —
Commercial real estate	—	—	—	—	1,325,494	1,325,494	2,655	400	7,457	1,600
Other construction/land	—	—	—	—	6,268	6,268				
Farmland	—	—	—	—	67,510	67,510	7,528	—	—	—
Total real estate	1,768	—	—	1,768	1,810,766	1,812,534	10,225	400	7,871	1,600
Other commercial	158	171	14	343	157,417	157,760	—	—	114	—
Mortgage warehouse lines	—	—	—	—	116,000	116,000				
Consumer loans	47	—	—	47	4,043	4,090				
Total Loans	\$ 1,973	\$ 171	\$ 14	\$ 2,158	\$ 2,088,226	\$2,090,384	\$10,225	\$ 400	\$ 7,985	\$ 1,600

During the first nine months of 2024 the amortized cost balance of collateral-dependent loans increased by \$2.2 million due primarily to an agriculture real estate secured loan and a commercial real estate loan, offset by the foreclosure and subsequent sale of an office real estate loan. The weighted average loan-to-value ratio of collateral-dependent loans was 97% at September 30, 2024. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of September 30, 2024.

Past Due Loans									
(dollars in thousands, unaudited)									
September 30, 2024									

	30-59 Days	60-89 Days	Loans Past		Loans not Past	
	Past Due	Past Due	Due 90+ Days	Total Past Due	Due	Total Loans
Real estate:						
Residential real estate	\$ —	\$ —	\$ —	\$ —	\$ 389,293	\$ 389,294
Commercial real estate	—	79	2,655	2,734	1,333,533	1,336,266
Other construction/land	—	—	—	—	5,628	5,629
Farmland	101	—	7,032	7,133	73,620	80,753
Total real estate	101	79	9,687	9,867	1,802,074	1,811,942
Other commercial	130	108	—	238	169,532	169,770
Mortgage warehouse lines	—	—	—	—	335,777	335,776
Consumer loans	2	—	—	2	3,535	3,537
Total Loans	\$ 233	\$ 187	\$ 9,687	\$ 10,107	\$ 2,310,918	\$ 2,321,025

	December 31, 2023					
	30-59 Days	60-89 Days	Loans Past		Loans not Past	
	Past Due	Past Due	Due 90+ Days	Total Past Due	Due	Total Loans
Real estate:						
Residential real estate	\$ 1,768	\$ —	\$ —	\$ 1,768	\$ 411,494	\$ 413,262
Commercial real estate	—	—	—	—	1,325,494	1,325,494
Other construction/land	—	—	—	—	6,268	6,268
Farmland	—	—	—	—	67,510	67,510
Total real estate	1,768	—	—	1,768	1,810,766	1,812,534
Other commercial	158	171	14	343	157,417	157,760
Mortgage warehouse lines	—	—	—	—	116,000	116,000
Consumer loans	47	—	—	47	4,043	4,090
Total Loans	\$ 1,973	\$ 171	\$ 14	\$ 2,158	\$ 2,088,226	\$ 2,090,384

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Loan Modifications

Occasionally, the Company modifies loans to borrowers experiencing financial difficulty by providing principal forgiveness, rate reductions, payment deferral, or term extension. When principal forgiveness is provided, the amount of forgiveness is charged off against the allowance for credit losses.

In some certain cases, the Company provides multiple types on of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: principal forgiveness, rate reduction, payment deferral, and/or term extension.

The following tables present the amortized cost basis of loans at June 30, 2024 September 30, 2024, that were both experiencing financial difficulty and modified during the three and six nine months ended June 30, 2024 September 30, 2024, by class and by type of modification. There were no modifications of loans to borrowers experiencing financial difficulty during the three and six nine months ended June 30, 2023 September 30, 2023. The percentage of the amortized cost basis of loans that were modified to borrowers experiencing financial difficulty as compared to the amortized cost basis of each class of financing receivable is also presented below (dollars in thousands, unaudited):

Three months ended June 30, 2024					
	Principal			Combination	Total Class of
	Forgiveness	Payment Delay	Term Extension	Term Extension	Financing
				Interest Rate Reduction	Receivable
Real estate:					
Residential real estate	\$ —	\$ —	\$ —	\$ —	—
Commercial real estate	—	—	—	—	—
Other construction/land	—	—	—	—	—
Farmland	—	—	—	—	—
Total real estate	—	—	—	—	—
Other commercial	—	—	—	—	—
Consumer loans	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	—
Three months ended September 30, 2024					
	Principal			Combination	Total Class of
	Forgiveness	Payment Delay	Term Extension	Extension Interest	Financing
				Rate Reduction	Receivable
Real estate:					
Farmland	—	—	299	—	0.37%
Total	\$ —	\$ —	\$ 299	\$ —	0.01%

	Six months ended June 30, 2024					Nine months ended September 30, 2024				
	Combination					Combination				
	Term					Term				
	Extension					Extension				
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Total Class of Financing Receivable	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Total Class of Financing Receivable
Real estate:										
Residential real estate	\$ —	\$ —	\$ —	\$ —	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—	—	—
Other construction/land	—	—	233	—	3.88%	—	—	224	—	3.98%
Farmland	—	—	—	—	—	—	—	299	—	0.37%
Total real estate	—	—	233	—	0.01%	—	—	523	—	0.03%
Other commercial	—	—	182	—	0.12%	—	—	153	—	0.09%
Consumer loans	—	—	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ 415	\$ —	0.02%	\$ —	\$ —	\$ 676	\$ —	0.03%

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The following tables present the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** (dollars in thousands, unaudited):

Three months ended June 30, 2024 September 30, 2024			
	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (years)
Real estate:			
Residential real estate	\$ —	—	—
Commercial real estate	\$ —	—	—
Other construction/land	\$ —	—	—
Farmland	\$ —	—	—
Other commercial	10.00\$	—	—
Mortgage warehouse lines	\$ —	—	—
Consumer loans	\$ —	—	—

Six Nine months ended June 30, 2024 September 30, 2024			
	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (years)
Real estate:			
Residential real estate	\$ —	—	—
Commercial real estate	\$ —	—	—
Other construction/land	\$ —	—	3.00
Farmland	\$ —	—	—10.00
Other commercial	\$ —	—	3.72 3.99
Mortgage warehouse lines	\$ —	—	—
Consumer loans	\$ —	—	—

There were no payment defaults on loans previously modified in the preceding 12 months for either of the quarters periods ending June 30, 2024 September 30, 2024, and 2023. For the purpose of this disclosure the Company defines a payment default as 90 days past due. The Company had no \$0.1 million in additional funds committed on loans which have been modified to borrowers experiencing financial difficulty. difficulty as of September 30, 2024 and none as of September 30, 2023.

The Company monitors the credit quality of loans on a continuous basis using the regulatory and accounting classifications of pass, special mention and substandard to characterize and qualify the associated credit risk. Loans classified as "loss" are immediately charged off. The Company uses the following definitions of risk classifications:

Pass – Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions below and smaller, homogeneous loans not assessed on an individual basis.

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

Substandard – Loans classified as substandard are those loans with clear and well-defined weaknesses such as a highly leveraged position, unfavorable financial operating results and/or trends, or uncertain repayment sources or poor financial condition, which may jeopardize ultimate recoverability of the debt.

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The following tables present the amortized cost of loans by credit quality classification in addition to loan vintage as of June 30, 2024, and December 31, 2023:

Loan Credit Quality by Vintage

(dollars in thousands, unaudited)

	June 30, 2024										September 30, 2024									
	Term Loans Amortized Cost Basis by Origination Year										Term Loans Amortized Cost Basis by Origination Year									
						Revolving										Revolving				
						Revolving Loans										Revolving Loans				
						Loans Converted										Loans Converted				
	2024	2023	2022	2021	2020	Prior	Cost	Loans	Total Loans		2024	2023	2022	2021	2020	Prior	Cost	Loans	Total Loans	
Residential real estate																				
Pass	\$ —	\$ —	\$ 98,232	\$ 224,920	\$ 7,510	\$ 50,641	\$ 10,115	\$ 3,204	\$ 394,623	\$ —	\$ —	\$ —	\$ 97,489	\$ 221,091	\$ 7,457	\$ 49,099	\$ 10,336	\$ 3,289	\$ 388,205	
Special mention	—	—	—	—	—	2,715	—	24	2,739	—	—	—	—	—	—	261	—	24	261	
Substandard	—	—	—	—	—	397	19	186	602	—	—	—	—	—	—	70	18	159	247	
Subtotal	—	—	98,232	224,920	7,510	53,753	10,134	3,414	397,964	—	—	97,489	221,091	7,457	49,430	10,354	3,472	388,205		
Commercial real estate																				
Pass	37,359	111,203	272,303	56,848	471,595	282,363	26,327	—	1,257,998	85,955	100,706	216,755	45,170	435,589	368,807	26,548	—	1,270,690		
Special mention	—	144	—	—	23,463	9,656	1,500	—	34,763	—	143	—	—	24,360	10,023	1,441	—	35,946		
Substandard	—	—	—	—	14,252	7,115	—	—	21,367	—	—	—	—	14,170	6,600	—	—	20,770		
Subtotal	37,359	111,347	272,303	56,848	509,310	299,134	27,827	—	1,314,128	85,955	100,849	216,755	45,170	474,119	385,430	27,989	—	1,337,406		
Other construction/land																				
Pass	850	351	—	—	3,545	1,245	—	—	5,990	224	350	—	—	3,451	1,603	—	—	5,325		
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
Subtotal	850	351	—	—	3,545	1,245	—	—	5,990	224	350	—	—	3,451	1,603	—	—	5,325		
Farmland																				
Pass	13,803	6,886	11,386	11,592	2,608	11,266	7,290	380	65,211	12,218	5,348	9,176	11,194	1,887	13,883	7,736	672	60,947		
Special mention	—	—	—	—	830	8,139	—	—	8,969	—	1,778	—	—	824	8,070	—	—	10,672		
Substandard	—	—	—	—	—	6,812	—	—	6,812	—	—	—	396	702	6,768	101	—	7,961		
Subtotal	13,803	6,886	11,386	11,592	3,438	26,217	7,290	380	80,992	12,218	7,126	9,176	11,590	3,413	28,721	7,837	672	80,580		
Other commercial																				
Pass	1,584	18,367	5,775	2,298	5,799	10,921	105,429	1,025	151,198	4,656	18,059	5,037	1,088	6,315	11,616	102,227	997	149,342		
Special mention	16	—	—	226	2,665	14	277	3,682	6,880	15	—	—	12	185	8	15,776	3,620	19,600		
Substandard	—	—	—	40	—	—	—	5	45	—	70	—	38	—	36	15	—	129		
Subtotal	1,600	18,367	5,775	2,564	8,464	10,935	105,706	4,712	158,123	4,671	18,129	5,037	1,138	6,500	11,660	118,018	4,617	169,071		
Mortgage warehouse lines																				
Pass	—	—	—	—	—	—	274,058	—	274,058	—	—	—	—	—	—	335,777	—	335,777		
Subtotal	—	—	—	—	—	—	274,058	—	274,058	—	—	—	—	—	—	335,777	—	335,777		
Consumer loans																				
Pass	741	510	162	69	80	208	1,774	—	3,545	848	463	135	60	56	184	1,774	—	3,325		
Special mention	—	11	2	—	—	—	—	—	13	—	11	—	—	—	—	2	—	13		

Substandard	3	—	—	—	—	—	—	—	3	4	—	—	—	—	—	—	—	—
Subtotal	744	521	164	69	80	208	1,774	—	3,561	852	474	135	60	56	184	1,776	—	—
Total	\$54,356	\$137,472	\$387,860	\$295,993	\$532,347	\$391,492	\$426,788	\$8,506	\$2,234,816	\$103,920	\$126,928	\$328,592	\$279,049	\$494,996	\$477,028	\$501,750	\$8,761	\$2,322,000
Gross charge-offs	\$754	\$25	\$5	\$3	\$2,468	\$413	\$274	\$—	\$3,942	\$1,173	\$25	\$6	\$3	\$2,438	\$413	\$281	\$—	\$—

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Loan Credit Quality by Vintage

(dollars in thousands, unaudited)

December 31, 2023									
Term Loans Amortized Cost Basis by Origination Year							Revolving Loans Amortized Cost	Revolving Loans Converted to Term Loans	Total Loans
	2023	2022	2021	2020	2019	Prior			
Residential real estate									
Pass	\$ —	\$ 104,141	\$ 228,849	\$ 7,611	\$ 1,979	\$ 50,295	\$ 12,797	\$ 2,302	\$ 407,974
Special mention	—	—	1,241	—	—	2,942	20	284	4,487
Substandard	—	—	—	—	—	494	115	192	801
Subtotal	—	104,141	230,090	7,611	1,979	53,731	12,932	2,778	413,262
Commercial real estate									
Pass	112,254	275,626	58,310	475,353	51,100	251,163	22,929	—	1,246,735
Special mention	148	—	—	39,654	3,010	8,489	—	—	51,301
Substandard	—	—	—	21,872	—	5,586	—	—	27,458
Subtotal	112,402	275,626	58,310	536,879	54,110	265,238	22,929	—	1,325,494
Other construction/land									
Pass	352	—	—	3,646	638	1,632	—	—	6,268
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Subtotal	352	—	—	3,646	638	1,632	—	—	6,268
Farmland									
Pass	6,731	11,645	11,793	2,650	1,652	11,608	2,750	394	49,223
Special mention	—	—	—	840	—	10,471	—	—	11,311
Substandard	—	—	—	—	—	6,976	—	—	6,976
Subtotal	6,731	11,645	11,793	3,490	1,652	29,055	2,750	394	67,510
Other commercial									
Pass	18,319	6,501	2,666	6,622	4,534	9,354	101,163	1,171	150,330
Special mention	—	—	273	2,783	—	128	143	3,748	7,075
Substandard	—	—	55	—	—	—	208	92	355
Subtotal	18,319	6,501	2,994	9,405	4,534	9,482	101,514	5,011	157,760
Mortgage warehouse lines									
Pass	—	—	—	—	—	—	116,000	—	116,000

Subtotal	—	—	—	—	—	—	116,000	—	116,000
Consumer loans									
Pass	1,366	229	102	82	67	177	1,949	—	3,972
Special mention	—	—	—	15	—	35	13	—	63
Substandard	55	—	—	—	—	—	—	—	55
Subtotal	1,421	229	102	97	67	212	1,962	—	4,090
Total	\$ 139,225	\$ 398,142	\$ 303,289	\$ 561,128	\$ 62,980	\$ 359,350	\$ 258,087	\$ 8,183	\$ 2,090,384
Gross charge-offs	\$ 2,145	\$ 45	\$ 250	\$ 2,266	\$ 81	\$ 1,345	\$ 489	\$	\$ 6,621

CECL replaces the legacy accounting for loans designated as purchased credit impaired ("PCI") with loans designated as purchased **Purchased** credit deteriorated ("PCD"). PCD loans are loans acquired or purchased, which as of acquisition, had evidence of more than insignificant credit deterioration since origination. Due to the immaterial balance in the Company's PCI loans as of December 31, 2021, management elected not to transition these loans into the PCD designation. As of **June 30, 2024** **September 30, 2024**, the Company had no loans categorized as PCD.

The model used for calculating the Company's ACL is refreshed periodically, most recently in the third quarter of 2024. As noted in Note 3, on January 1, 2022, a result of this refresh process the Company implemented CECL and increased our ACL, previously the allowance for loan losses, changed to a Multi-factor Regression Model from a Single Factor Regression Model which was used in previous periods. Additionally, legacy peer groups were expanded to include California banks with a \$9.5 million cumulative adjustment, an asset size between \$1.5 billion to \$10 billion. The Company's ACL is calculated quarterly, with any difference in the calculated ACL and the recorded ACL **trued-up adjusted** through an entry to the provision for credit losses. For purposes of estimating the Company's ACL, Management generally evaluates collectively evaluated loans by Federal Call code in order to group loans with similar risk characteristics together, however management has grouped loans in selected call codes together in determining portfolio segments, due to similar risk characteristics and reserve methodologies used for certain call code classifications.

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Management calculates the quantitative portion of collectively evaluated reserves for all loan categories, with the exception of Farmland, Agricultural Production and Consumer loans, using a discounted cash flow ("DCF") methodology. For purposes of calculating the quantitative portion of collectively evaluated reserves on Farmland, Agricultural Production, and Consumer categories a Remaining Life methodology is utilized.

The DCF quantitative reserve methodology incorporates the consideration of probability of default ("PD") and loss given default ("LGD") estimates to estimate periodic losses. The PD estimates are derived through the application of reasonable and supportable economic forecasts to call code specific regression models, derived from the consideration of historical bank-specific and peer loss-rate data. The loss rate data has been regressed against benchmark economic indicators, for which reasonable and supportable forecasts exist, in the development of the call-code specific regression models. Regression models are generally refreshed **on an annual basis, periodically**, in order to pull in more recent loss rate data. Reasonable and supportable forecasts of the selected economic metric are then input into the regression model to calculate an expected default rate. The expected default rates are then applied to expected monthly loan balances estimated through the consideration of contractual repayment terms and expected prepayments. The Company utilizes a four-quarter forecast period, after which the expected default rates revert to the historical average for each call code, over a four-quarter reversion period, on a straight-line basis. The prepayment assumptions applied to expected cash flow over the contractual life of the loans are estimated based on historical, bank-specific experience, peer data and the consideration of current and expected conditions and circumstances including the level of interest rates. The prepayment assumptions may be updated by Management in the event that changing conditions impact Management's estimate or additional historical data gathered has resulted in the need for a reevaluation. LGD utilized in the DCF is derived from the application of the Frye-Jacobs theory which relates LGD to PD based on historical peer data, as calculated by a third-party. Economic forecasts are considered over a four-quarter forecast period, with reversion to mean occurring on a straight-line basis over four quarters. The call code **multiple factor** regression models utilized **upon implementation of CECL on January 1, 2022, and as of June 30, 2024 September 30, 2024, were identical, and for**

Residential Real Estate loans relied upon reasonable and supportable forecasts of the National Unemployment Rate, Rate and House Price Index (HPI). The call code multiple factor regression models utilized as of September 30, 2024, for Commercial Real Estate and Other Construction loans relied upon reasonable and supportable forecasts of the National Unemployment Rate and Gross Domestic Product (GDP). Management selected the National Unemployment Rate, HPI, and GDP as the driver drivers of quantitative portion of collectively evaluated reserves on loan classes reliant upon the DCF methodology, primarily as a result of high correlation coefficients identified in regression modeling, the availability of forecasts including the quarterly Federal Open Market Committee ("FOMC") forecast and given the widespread familiarity of stakeholders with this these economic metric, metrics.

The quantitative reserves for Farmland, Agricultural Production and Consumer loans are calculated using a Remaining Life methodology where average historical bank specific and peer loss rates are applied to expected loan balances over an estimated remaining life of loans in calculation of the quantitative portion of collectively evaluated loans in these classes. The estimated remaining life is calculated using historical bank-specific loan attrition peer data. For the Farmland, Agricultural Production and Consumer classes of loans, reasonable and supportable forecasts of the National Unemployment rate, real GDP and the housing price index are considered through estimation of qualitative reserves.

Management recognizes that there are additional factors impacting risk of loss in the loan portfolio beyond what is captured in the quantitative portion of reserves on collectively evaluated loans. As current and expected conditions may vary compared with conditions over the historical lookback period, which is utilized in the calculation of quantitative reserves, management considers whether additional or reduced reserve levels on collectively evaluated loans may be warranted given the consideration of a variety of qualitative factors. Several of the following qualitative factors ("Q-factors") considered by management reflect the legacy regulatory guidance on Q-factors, whereas several others represent factors unique to the Company or unique to the current time period.

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices
- Changes in international, regional and local economic and business conditions, and developments that affect the collectability of the portfolio, as reflected in forecasts of the Housing Price Index, Real GDP and the National Unemployment Rate (Farmland & Agricultural Production and Consumer segments only)
- Changes in the nature and volume of the loan portfolio

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- Changes in the experience, ability, and depth of lending management and other relevant staff
- Changes in the volume and severity of past due, nonaccruals loans, and adversely classified loans, as reflected in changes of the relative level of loans classified as substandard and special mention

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- Changes in the quality of the Company's loan review processes
- Changes in the value of underlying collateral for loans not identified as collateral-dependent
- Changes in loan categorization concentrations
- Other external factors, which include, the influence of peer data on estimated quantitative reserves, residual COVID-19 related risk, expected impact of current and expected inflationary environment, reliance on the National Unemployment rate as opposed to the California unemployment rate in the calculation of quantitative reserves, the expected impact of current and expected geo-political conditions

The qualitative portion of the Company's reserves on collectively evaluated loans are calculated using a combination of numeric frameworks and management judgement to determine risk categorizations in each of the Q-factors presented above. The amount of qualitative reserves is also contingent upon the historical peer, life-of-loan-equivalent, loss rate ranges and the relative weighting of Q-factors according to management's Management's judgment.

Although collectively evaluated reserves are generally calculated separately at the call code or loan class level, management Management has grouped loan classes with similar risk characteristics into the following portfolio segments: Residential Real Estate, Commercial Real Estate, Farmland & Agricultural Production, Commercial & Industrial, Mortgage Warehouse and Consumer loans.

- Residential Real Estate
- Commercial Real Estate
- Farmland & Agricultural Production
- Commercial & Industrial
- Mortgage Warehouse
- Consumer loans.

Loans secured by Residential Real Estate have a different profile from loans secured by Commercial Real Estate. Generally, the borrowers for Residential Real Estate loans are consumers whereas borrowers for Commercial Real Estate are often businesses. The COVID-19 pandemic illustrated how these different categories of real estate loans were subject to different risks, which was exacerbated by the widespread work-from-home model adopted by many companies during and since the pandemic. Farmland and Agricultural Production loans are included in a single segment as these loans are often times to the same borrowers, facing the same risks relating to commodity prices, water supply and drought conditions in addition to other environmental concerns. Commercial & Industrial loans are separated into a unique segment given the uniqueness of these loans, which are often revolving and secured by other business assets as opposed to real estate. Mortgage warehouse loans are also unique in the Company's portfolio and warrant separate presentation as an individual portfolio segment, given the specific nature of these constantly revolving lines to mortgage originators and also attributable to a very limited loss history, even after consideration of peer data. Finally, the Company splits out Consumer loans as a separate segment as a result of the small balance, homogeneous terms that characterize these loans.

Management individually evaluates loans that do not share risk characteristics with other loans when estimating reserves. As of June 30, 2024, September 30, 2024 and 2023, the only loans that Management considered to have different risk characteristics from other loans sharing the same Federal Call Report code were loans designated nonaccrual.

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The following tables present the activity in the allowance for credit losses by portfolio segment for the quarters ended June 30, 2024, September 30, 2024, and 2023:

Allowance for Credit Losses and Recorded Investment in Financing Receivables

(dollars in thousands, unaudited)

	Farmland &							Farmland &						
	Residential	Commercial	Agricultural	Commercial	Mortgage		Total	Residential	Commercial	Agricultural	Commercial	Mortgage		Total
	Real Estate	Real Estate	Production	& Industrial	Warehouse	Consumer		Real Estate	Real Estate	Production	& Industrial	Warehouse	Consumer	
Allowance for credit losses:														
Balance, March 31, 2024	\$ 2,543	\$ 18,651	\$ 555	\$ 845	\$ 305	\$ 241	\$23,140							
Balance, June 30, 2024								\$ 2,522	\$ 16,666	\$ 637	\$ 814	\$ 685	\$ 316	\$21,640
Charge-offs	—	(2,448)	—	(40)	—	(326)	(2,814)	—	31	—	(39)	—	(389)	
Recoveries	60	—	—	103	—	230	393	—	—	—	16	—	211	
(Benefit) provision for credit losses	(81)	463	82	(94)	380	171	921	(885)	1,445	174	485	(218)	239	1,445
Ending allowance balance:	\$ 2,522	\$ 16,666	\$ 637	\$ 814	\$ 685	\$ 316	\$21,640							
Balance, September 30, 2024								\$ 1,637	\$ 18,142	\$ 811	\$ 1,276	\$ 467	\$ 377	\$22,613

	Farmland &							Farmland &						
	Residential	Commercial	Agricultural	Commercial	Mortgage		Total	Residential	Commercial	Agricultural	Commercial	Mortgage		Total
	Real Estate	Real Estate	Production	& Industrial	Warehouse	Consumer		Real Estate	Real Estate	Production	& Industrial	Warehouse	Consumer	
Allowance for credit losses:														
Balance, March 31, 2023	\$ 3,243	\$ 17,799	\$ 501	\$ 1,206	\$ 82	\$ 259	\$23,090							
Balance, June 30, 2023								\$ 3,037	\$ 17,373	\$ 497	\$ 1,676	\$ 144	\$ 283	\$23,010
Charge-offs	—	—	—	(52)	—	(472)	(524)	—	—	—	(116)	—	(425)	
Recoveries	—	17	34	46	—	270	367	—	—	54	170	—	250	
(Benefit) provision for credit losses	(206)	(443)	(38)	476	62	226	77	(115)	501	40	(481)	(36)	208	1,445
Ending allowance balance:	\$ 3,037	\$ 17,373	\$ 497	\$ 1,676	\$ 144	\$ 283	\$23,010							
Balance, September 30, 2023								\$ 2,922	\$ 17,874	\$ 591	\$ 1,249	\$ 108	\$ 316	\$23,050

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The following tables present the activity in the allowance for credit losses by portfolio segment for the **six nine** months ended **June 30, 2024** September 30, 2024 and 2023:

	Farmland &							Farmland &						
	Residential	Commercial	Agricultural	Commercial	Mortgage	Consumer	Total	Residential	Commercial	Agricultural	Commercial	Mortgage	Consumer	Total
	Real Estate	Real Estate	Production	& Industrial	Warehouse			Real Estate	Real Estate	Production	& Industrial	Warehouse		
Allowance for credit losses:														
Balance, December 31, 2023	\$ 2,727	\$ 18,554	\$ 586	\$ 1,148	\$ 174	\$ 311	\$23,500	\$ 2,727	\$ 18,554	\$ 586	\$ 1,148	\$ 174	\$ 311	\$23,500
Charge-offs	—	(2,468)	(410)	(326)	—	(738)	(3,942)	—	(2,438)	(410)	(365)	—	(1,126)	(4,339)
Recoveries (Benefit)	60	—	—	543	—	461	1,064	60	—	—	559	—	672	1,291
provision for credit losses	(265)	580	461	(551)	511	282	1,018	(1,150)	2,026	635	(66)	293	520	2,258
Ending allowance balance:	\$ 2,522	\$ 16,666	\$ 637	\$ 814	\$ 685	\$ 316	\$21,640							
Balance, September 30, 2024	\$ 1,637	\$ 18,142	\$ 811	\$ 1,276	\$ 467	\$ 377	\$22,513							

	Farmland &							Farmland &						
	Residential	Commercial	Agricultural	Commercial	Mortgage	Consumer	Total	Residential	Commercial	Agricultural	Commercial	Mortgage	Consumer	Total
	Real Estate	Real Estate	Production	& Industrial	Warehouse			Real Estate	Real Estate	Production	& Industrial	Warehouse		
Allowance for credit losses:														
Balance, December 31, 2022	\$ 3,251	\$ 17,732	\$ 458	\$ 1,233	\$ 72	\$ 314	\$23,060	\$ 3,251	\$ 17,732	\$ 458	\$ 1,233	\$ 72	\$ 314	\$23,060
Charge-offs	—	—	(1,277)	(360)	—	(867)	(2,504)	—	—	(1,277)	(476)	—	(1,292)	(3,055)
Recoveries (Benefit)	205	17	1,316	69	—	520	2,127	205	17	1,370	239	—	770	2,591
provision for credit losses	(419)	(376)	—	734	72	316	327	(534)	125	40	253	36	524	324
Ending allowance balance:	\$ 3,037	\$ 17,373	\$ 497	\$ 1,676	\$ 144	\$ 283	\$23,010							
Balance, September 30, 2023	\$ 2,922	\$ 17,874	\$ 591	\$ 1,249	\$ 108	\$ 316	\$23,060							

Note 11 – Goodwill

The balance of goodwill at the three and **six nine** months beginning and ended **June 30, 2024** **September 30, 2024** and 2023 was \$27.4 million. There was no acquired goodwill **or impairment** for the three or **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023.

The Company performs its annual goodwill impairment tests annually, or more often if events or circumstances indicate the carrying value may not be recoverable. The annual assessment date was changed to October 1 in 2023 **as it was December 31 in 2022**, to allow more time for evaluation of impairment.

The Company performed its annual Step 1 goodwill impairment assessment as of October 1, 2023, using a market approach. Based on the results of the Company's goodwill impairment assessment, the Company determined that the fair value of its reporting unit, which was at the consolidated level, exceeded the carrying value. Management continues to evaluate whether or not a triggering event occurs, or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount before the next annual test in 2024, and has concluded no such events have occurred. Therefore, goodwill was not impaired as of **June 30, 2024** **September 30, 2024**, and there were no impairment charges related to the Company's goodwill recorded during the three or **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023.

Note 12 – Borrowings and Other Arrangements

Repurchase Agreements – Repurchase agreements represent “sweep accounts,” where commercial deposit balances above a specified threshold are transferred at the close of each business day into non-deposit accounts secured by investment securities. Repurchase agreements totaled \$125.5 million at September 30, 2024, relative to a balance of \$107.1 million at December 31, 2023.

Long-Term Debt – The Company has long-term debt in the form of fixed to floating rate subordinated debentures with a fixed rate of 3.25% until September 30, 2026, then floating rate at 253.5 basis points over 3-month term Secured Overnight

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Note 12 – Borrowings *Financing Rate (“SOFR”) until maturity on October 1, 2031. The balance of the Company's long-term debt, net of unamortized issuance costs, was \$49.4 million at September 30, 2024, and Other Arrangements \$49.3 million at December 31, 2023.*

Subordinated Debentures - Sierra Statutory Trust II (“Trust II”), Sierra Capital Trust III (“Trust III”), and Coast Bancorp Statutory Trust II (“Trust IV”), (collectively, the “Trusts”) exist solely for the purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. For financial reporting purposes, the Trusts are not consolidated, and the Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Subordinated Debentures”) held by the Trusts and issued and guaranteed by the Company are reflected in the Company's consolidated balance sheet in accordance with provisions of ASC Topic 810. Trust preferred securities are variable rate instruments which were benchmarked against the London Interbank Offered Rate (LIBOR) plus a spread until LIBOR was phased out on June 30, 2023. These instruments are benchmarked against the SOFR, effective June 30, 2023. At September 30, 2024, and December 31, 2023, the Company's trust preferred securities totaled \$35.8 million and \$35.7 million, respectively.

The following table summarizes the Company's other borrowings as of **June 30, 2024** **September 30, 2024**, and December 31, 2023:

	June 30, 2024		December 31, 2023		September 30, 2024		December 31, 2023	
	Weighted Average		Weighted Average		Weighted Average		Weighted Average	
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate
Overnight Federal funds purchased	\$ —	—	\$ 130,000	5.25%	\$ —	—	\$ 130,000	5.25%
Short-term FHLB advance	—	—	150,500	3.73%	—	—	150,500	3.73%
Long-term FHLB advance	80,000	3.91%	80,000	3.91%	80,000	3.91%	80,000	3.91%
Total other borrowings	\$ 80,000	4.45%	\$ 360,500	4.27%	\$ 80,000	4.30%	\$ 360,500	4.27%

The Company has established secured and unsecured lines of credit under which it may borrow funds from time to time on a term or overnight basis from the FHLB, FRB, and other correspondent banks.

Federal Funds Purchased— The Company had unsecured available lines of credit with correspondent banks and the FHLB for short-term borrowings totaling \$504.8 million at [June 30, 2024](#), [September 30, 2024](#), and \$374.8 million at December 31, 2023. In general, interest rates on these lines approximate the federal funds target rate.

Secured FHLB Borrowings — At [June 30, 2024](#), [September 30, 2024](#), and December 31, 2023, the Company had secured available lines of credit with the FHLB totaling [\\$672.3 million](#), [\\$618.1 million](#) and \$586.7 million, respectively, based on eligible collateral of certain loans and investment securities.

Federal Reserve Line of Credit — The Company has an available line of credit with the Federal Reserve Bank ("FRB") of San Francisco secured by certain loans and investments. At [June 30, 2024](#), [September 30, 2024](#), and December 31, 2023, the Company had borrowing capacity under this line totaling [\\$348.4 million](#), [\\$342.7 million](#) and \$392.0 million, respectively. The Company had no outstanding borrowings on this line of credit as of [June 30, 2024](#), [September 30, 2024](#), and December 31, 2023.

Repurchase Agreements — Repurchase agreements represent "sweep accounts," where commercial deposit balances above a specified threshold are transferred at the close of each business day into non-deposit accounts secured by investment securities. Repurchase agreements totaled \$148.0 million at June 30, 2024, relative to a balance of \$107.1 million at December 31, 2023.

Long-Term Debt — The Company has long-term debt in the form of fixed to floating rate subordinated debentures with a fixed rate of 3.25% until September 30, 2026, then floating rate at 253.5 basis points over 3-month term Secured Overnight Financing Rate ("SOFR") until maturity on October 1, 2031. The balance of the Company's long-term debt, net of unamortized issuance costs, was \$49.3 million at June 30, 2024, and December 31, 2023.

Subordinated Debentures - Sierra Statutory Trust II ("Trust II"), Sierra Capital Trust III ("Trust III"), and Coast Bancorp Statutory Trust II ("Trust IV"), (collectively, the "Trusts") exist solely for the purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. For financial reporting purposes, the Trusts are not consolidated, and the Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") held by the Trusts and issued and guaranteed by the Company are reflected in the Company's consolidated balance sheet in accordance with provisions of ASC Topic 810. Trust preferred securities are variable rate instruments which were benchmarked against the London Interbank Offered Rate (LIBOR) plus a spread until LIBOR was phased out on June 30, 2023. These instruments are benchmarked against the SOFR, effective June 30, 2023. At June 30, 2024, and December 31, 2023, the Company's trust preferred securities totaled \$35.7 million.

Note 13 – Revenue Recognition

The Company utilizes the guidance found in ASU 2014-09, Revenue from Contracts with Customers (ASC 606), when accounting for certain noninterest income. The core principle of this guidance is that an entity should recognize revenue

to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Sufficient information should be provided to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company's revenue streams that are within the scope of and accounted for under Topic 606 include service charges on deposit accounts, debit card interchange fees, and fees levied for other services the Company provides its customers. The guidance does not apply to revenue associated with financial instruments such as loans and investments, and other noninterest income such as loan servicing fees and earnings on bank-owned life insurance, which are accounted for on an accrual basis under other provisions of GAAP.

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All of the Company's revenue from contracts within the scope of ASC 606 is recognized as noninterest income and gains on income. Due to the sale of OREO which is classified as noninterest expense. These gains were immaterial for each short-term nature of the three months ended June 30, 2024, Company's contracts with customers, an insignificant amount of receivables related to such revenue was recorded at September 30, 2024 and 2023, and the year ended December 31, 2023. The following table presents the Company's sources of noninterest income. Items outside the scope of ASC 606 are noted as such (dollars in thousands, unaudited).

						For the year ended December				
	For the three months ended June 30,		For the six months ended June 30,		31,	2023	For the three months ended September 30,		Nine months ended September 3	
	2024	2023	2024	2023	2023		2024	2023	2024	2023
Noninterest income										
Service charges on deposits										
Returned item and overdraft fees	\$ 1,354	\$ 1,296	\$ 2,678	\$ 2,553	\$ 5,261		\$ 1,458	\$ 1,375	\$ 4,136	\$ 3,925
Other service charges on deposits	2,719	3,748	5,173	5,842	9,790		2,713	2,642	7,884	7,057
Debit card interchange income	2,111	647	4,059	2,676	8,052		2,034	2,038	6,094	6,147
Gain on limited partnerships ⁽¹⁾	—	166	—	—	—					
Dividends on equity investments ⁽¹⁾	320	220	695	496	1,076		319	275	1,014	775

Unrealized losses recognized on equity investments ⁽¹⁾	—	—	(311)	(291)	(291)	—	—	(311)	(291)
Net gain (loss) on sale of securities ⁽¹⁾	—	351	(2,883)	396	396	73	—	(2,810)	396
Other ⁽¹⁾	1,126	1,585	6,808	2,921	6,116	1,192	1,432	8,002	4,351
Total noninterest income	\$ 7,630	\$ 8,013	\$ 16,219	\$ 14,593	\$ 30,400	\$ 7,789	\$ 7,762	\$ 24,009	\$ 22,351
Percentage of noninterest income not within scope of ASC 606.	18.95%	28.98%	26.57%	24.13%	24.00%	20.34%	21.99%	24.55%	23.39%

⁽¹⁾ Not within scope of ASC 606. Revenue streams are not related to contracts with customers and are accounted for under other provisions of GAAP.

With regard to noninterest income associated with customer contracts, the Company has determined that transaction prices are fixed, and performance obligations are satisfied as services are rendered, thus there is little or no judgment involved in the timing of revenue recognition under contracts that are within the scope of ASC 606.

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PART I - FINANCIAL INFORMATION

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Form 10-Q includes forward-looking statements that involve inherent risks and uncertainties. These forward-looking statements are within the meaning of Section 27A of the Securities Act of 1933 ("1933 Act"), as amended and Section 21E of the Securities Exchange Act of 1934 ("1934 Act"), as amended. Those sections of the 1933 Act and 1934 Act provide a "safe harbor" for forward-looking statements in order to encourage companies to provide prospective information about their financial performance as long as important factors that could cause actual results to differ significantly from projected results are identified with meaningful cautionary statements. Words such as "expects," "anticipates," "believes," "projects," "intends," and "estimates" or variations of such words and similar expressions, as well as future or conditional verbs preceded by "will," "would," "should," "could" or "may" are intended to identify forward-looking statements. These forward-looking statements are based on certain underlying assumptions and are not guarantees of future performance, as they could be impacted by several potential risks and developments that cannot be predicted with any degree of certainty.

These statements are based on management's Management's current expectations regarding economic, legislative, regulatory and other environmental issues that may affect our earnings in future periods. Therefore, actual outcomes and results may differ materially from what is expressed, forecast in, or implied by such forward-looking statements.

A variety of factors could have a material adverse impact on the Company's financial condition or results of operations and should be considered when evaluating the Company's potential future financial performance. They include, but are not limited to:

- risks associated with fluctuations in interest rates, including the impact on other comprehensive income, the ability for customers to repay on floating or adjustable rates loans, and the impact on costs and demand of deposits and funding, the impact on interest income on earning assets, the impact on valuations of collateral on our loans, and the impact on fair value of longer-term assets;
- risks associated with inflation (including efforts by the FOMC of the FRB to control the same);
- the risk of unfavorable economic conditions in the Company's market areas, or the impact on the Company's market areas of national or international economic conditions;
- liquidity risks, including the ability to effectively manage the potential loss of deposits, the ability to maintain funding lines of credit, and the loss of value of unencumbered investment securities;
- increases in nonperforming assets and credit losses that could occur, particularly in times of weak economic conditions or rising interest rates;
- the impact of adverse developments at other banks, including bank failures, that impact general sentiment regarding the stability and liquidity of banks;
- risks associated with the multitude of or changes to current and prospective banking laws and regulations, and related interpretations, to which the Company is and will be subject;
- operational risks including the ability to detect and prevent financial reporting errors, operations errors, and fraud;
- the Company's ability to diversify and grow its loan portfolio;
- the Company's ability to attract and retain skilled employees;

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- the Company's ability to successfully deploy new technology and manage cyber security risks;
- the risk to the Company's operations and ability to serve customers due to the inability of a vendor to meet its service level agreements;
- the outcome of any existing or future legal action for which the Company or Bank is a defendant;
- the effects of severe weather events, pandemics, other public health crises, acts of war or terrorism, and other external events; and
- the success of acquisitions or branch expansions, closures or consolidations.

Risk factors that could cause actual results to differ materially from results that might be implied by forward-looking statements include the risk factors detailed in the Company's Form 10-K for the fiscal year ended December 31, 2023, and in Item 1A, herein. We do The Company does not update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The financial information and disclosures contained within those statements are significantly impacted by Management's estimates and judgments, which are based on historical experience and incorporate various assumptions that are believed to be reasonable under current circumstances. Actual results may differ from those estimates under divergent conditions.

Critical accounting policies are those that involve the most complex and subjective decisions and assessments which have the greatest potential impact on the Company's stated results of operations. In Management's opinion, the Company's critical accounting policies deal with the following areas:

- the establishment of the allowance for credit losses, as explained in detail in Note 10 to the consolidated financial statements and in the "Provision for Credit Losses" and "Allowance for Credit Losses" sections of this discussion and analysis;
- the valuation of individually evaluated loans and foreclosed assets, as discussed in Notes 8 and 10 to the consolidated financial statements;
- income taxes and related deferred tax assets and liabilities, regarding the ability of the Company to recover deferred tax assets as discussed in the "Provision for Income Taxes" and "Other Assets" sections of this discussion and analysis; and
- goodwill and other intangible assets, which are evaluated annually for impairment and for which we have the Company has determined that no impairment exists, as discussed in the "Other Assets" section of this discussion and analysis.

Critical accounting areas are evaluated on an ongoing basis to ensure that the Company's financial statements incorporate our its most recent expectations regarding those areas.

OVERVIEW OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS SUMMARY

Second Third Quarter 2024 compared Compared to Second Third Quarter 2023

Second Third quarter 2024 net income was \$10.3 million \$10.6 million, a \$0.3 million increase or 3%, from the second quarter of 2023 and \$0.71 \$0.74 per diluted share in the second third quarter of 2024 as compared to \$0.67 \$0.68 per diluted share in the second third quarter of 2023. The Company's annualized return on average equity was 11.95% and annualized return on average assets was 1.14% for the quarter ended September 30, 2024, compared to 12.62% and 1.04%,

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the quarter ended June 30, 2024, compared to 13.06% and 1.07%, respectively, for the same quarter in 2023. The primary drivers behind the increase in second third quarter net income are as follows:

- Net income increased by \$0.3 million 7%, or 3% \$0.7 million, to \$10.3 million \$10.6 million due to higher net interest income, and lower noninterest expenses partially offset by an increase in the provision for credit losses, and lower noninterest income. losses.
- The \$1.9 million, or 7%, \$2.7 million increase in net interest income was driven by a 30 36 basis points point increase in net interest margin. A \$180.9 million decrease in other borrowed funds due to the strategic securities transaction and This is primarily a result of a balance sheet restructuring, including a bond sale, in early the first quarter of 2024, along with higher loan yields were yields. Noninterest income was mostly flat for the primary drivers of the net interest margin increase, quarter, with increases in service charge income offset by decreases in other noninterest income, primarily from life insurance proceeds received in 2023 that did not reoccur in 2024.
- Noninterest income decreased \$0.4 million, primarily from nonrecurring gains on the sale of investments in the second quarter of 2023.
- Noninterest expense improved was \$0.2 million higher in the third quarter over the same quarter last year. While salary and benefit costs decreased due to a strategic internal reorganization in the fourth quarter of 2023, which optimized our team structure, and better aligned our resources and processes, this was offset by an increase in occupancy costs, due to the sale leaseback of certain branches in the fourth quarter of 2023.

First Half Nine Months of 2024 compared Compared to First Half Nine Months of 2023

- Net income increased \$1.6 million, or 6%. This was primarily driven by an increase of \$5.1 million or 6% in net interest income, due mostly to an overall increase in interest rates on earning assets. While the Company experienced higher yields and balances on loans, this was complemented by a decrease in borrowed funds and a decrease in the rate paid on the remaining balance of borrowed funds. Partially offsetting these positive variances was an increase in the provision for credit losses, and an increase in occupancy expenses from the sale/leaseback of branch buildings in late 2023.

Net income for the first half of 2024 was \$19.6 million, or \$1.35 per diluted share, compared to \$18.7 million, or \$1.26 per diluted share for the same period in 2023. The Company's annualized return on average equity was 11.52% and annualized return on average assets was 1.10% for the six months ended June 30, 2024, compared to a return on equity of 12.30% and return on assets of 1.02% for the six months ended June 30, 2023. The primary drivers behind the variance in year-to-date net income are as follows:

- The provision for credit losses on loans was \$1.0 million \$2.4 million, an increase of \$0.7 million \$2.2 million, primarily due to higher an increase in net charge-offs.
- Net interest income increased by \$2.4 million, or 4%, due mostly to the strategic decision to sell off lower yielding bonds charge-offs in the fourth quarter of 2023 and the first second quarter of 2024, which generated cash used partially due to pay off higher cost borrowed funds, a foreclosure of a single property.
- Noninterest income increased \$1.6 million by \$1.7 million, or 11%, primarily from an increase in service 7%. Service charges on deposit accounts were \$1.0 million higher, due mostly to higher interchange income, an increase in analysis fees, and other transaction-based fees, combined with a \$0.9 million positive variance net \$0.6 million gain, from the balance sheet restructuring earlier in Bank Owned Life Insurance (BOLI) income tied to our nonqualified deferred compensation plan, the year.
- Noninterest expense increased \$1.3 million \$1.5 million, or 3% primarily 2%, due mostly to increased increases in rent expense from the sale/leaseback transactions in fourth quarter of 2023 and first quarter branch buildings at the end of 2024, 2023.

FINANCIAL CONDITION SUMMARY

June September 30, 2024 relative Relative to December 31, 2023

The Company's assets totaled \$3.7 billion at June 30, 2024 September 30, 2024, a decrease of \$48.6 million \$33.6 million, or 1.0% from December 31, 2023. The following provides a summary of key balance sheet changes during the first six nine months of 2024:

- Investment securities decreased \$309.6 million, \$324.0million, or 23.0% 24.0%, to \$1.0 billion primarily due to the sale of bonds from the strategic securities transaction and balance sheet restructuring.
- Gross loans increased \$144.5 million, or 7% \$230.6 million, due to a \$158.1 million \$219.8 million increase in mortgage warehouse line utilization, a \$10.6 million increase in commercial real estate loans, and a \$13.5 million \$13.3 million increase in farmland loans, and a \$12.0 million increase in commercial loans. This favorable growth was partially offset by a \$23.9 million decrease in residential real estate loans, due to payoffs and paydowns, and smaller declines in other categories. Specifically, there was construction and consumer loans.
- Deposits totaled \$3.0 billion at September 30, 2024, representing a \$27.0 million decrease year-to-date increase of \$200.9 million, or 7%. The growth in non-agricultural real estate loans, deposits came mostly from a \$0.4 million decline \$175.0 million increase in other commercial loans and a \$0.5 million reduction in consumer loans. In addition brokered deposits to strong favorable growth in fund mortgage

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warehouse new credit extended, including new fundings on non-mortgage warehouse lines, of credit, was \$75.3 million YTD 2024 vs \$89.6 million YTD 2023, and a \$40.6 million increase in transaction accounts offset by smaller declines in customer non-transaction accounts.

- Deposits increased by \$181.2 million, or 7%. The growth in deposits came primarily from brokered deposits, as overall customer deposits decreased \$30.4 million. Brokered deposits added in 2024 had a term of one year or less and were used to fund increases in mortgage warehouse balances in 2024.
- Other interest-bearing liabilities decreased \$239.6 million mostly \$262.1 million, from a decrease in overnight borrowings facilitated by the strategic balance sheet restructuring in the first quarter of 2024, 2024, and a decrease in FHLB advances, as the Company utilized brokered deposits not only to fund mortgage lines, but to pay down more costly FHLB lines of credit.

- Total capital of \$350.0 million at June 30, 2024, reflects an increase of \$11.9 million, or 4%, compared to December 31, 2023. The increase in equity during the first half of 2024, is due to net income of \$19.6 million, offset by a \$6.7 million dividend paid to shareholders, \$7.1 million in share repurchases and a \$5.3 million favorable swing in other comprehensive income due principally to changes in investment securities' fair value. The remaining difference is related to equity compensation recognized during the first half of 2024.

Total capital of \$358.7 million at September 30, 2024, reflects an increase of \$20.6 million, or 6%, compared to December 31, 2023. The increase in capital was due to the addition of \$30.2 million in net income, a \$7.4 million favorable swing in accumulated other comprehensive income/loss, due principally to changes in investment securities' fair value, offset by \$8.3 million in share repurchases, and \$10.2 million in dividends paid. The remaining difference is related to the impact of equity compensation recognized during the first nine months of 2024.

EARNINGS PERFORMANCE

The Company earns income from two primary sources. The first is net interest income, which is interest income generated by earning assets less interest expense on deposits and other borrowed money. The second is noninterest income, which primarily consists of customer service charges and fees but also comes from non-customer sources such as BOLI, equity investments, and investment gains. The majority of the Company's noninterest expense is comprised of operating costs that facilitate offering a full range of banking services to our its customers.

NET INTEREST INCOME AND NET INTEREST MARGIN

Net interest income was \$30.2 million \$30.8 million, for the second third quarter of 2024, a \$1.9 million \$2.7 million increase, or 7% 10% over the second third quarter of 2023, and increased \$2.4 million, or 4%, to \$58.9 million for the first six months of 2024 relative to the same period in 2023. This increase in interest income for the quarterly comparison was due primarily to an increase in interest income on loans of \$4.2 million \$5.1 million, augmented by a \$0.8 million \$0.3 million decrease in interest expense due to the reduction in borrowed funds facilitated by a balance sheet restructuring, partially offset by a related decline in interest income on investments of \$1.6 million, or 10%, \$2.7 million due to the sale of low yielding investments.

For the second third quarter of 2024, although the balance of average interest-earning assets was \$106.2 million \$74.0 million lower due mostly to lower investment securities, the yield was 71 37 basis points higher as compared to the same period in 2023. There was a 23 4 basis point increase in the cost of our the Company's interest-bearing liabilities for the same period, which partially offset some of the higher yields on the asset side.

Net interest income for the comparative year-to-date periods increased \$2.4 million \$5.1 million, or 6%, due to the a strategic decision to change the in mix on interest earning of average interest-earning assets selling off lower yielding bonds in the fourth quarter of 2023 and the first quarter of 2024, moderated by 2024. Although the Company realized a \$6.7 million increase in income on interest-earning assets due to an increase in interest rates, this change was moderated by a \$3.3 million increase in interest expense for rates paid on interest-bearing interest bearing liabilities. There was a \$112.5 million \$136.1 million, or 6% 7%, increase in average loan and lease balances yielding 41 45 basis points higher for the same period, while average investment balances decreased \$229.1 million \$238.5 million, yielding 69 52 basis points higher for the same period. Average interest-bearing liabilities decreased \$83.7 million \$82.2 million, mostly in borrowed funds. The cost of interest-bearing liabilities was 41 28 basis points higher for the comparative periods.

The favorable net impact of the mix and rate change was a 23 27 basis point increase in our the Company's net interest margin for the six months nine-months ending June 30, 2024 September 30, 2024, as compared to the same period in 2023.

Interest expense was \$13.3 million \$14.0 million for the second third quarter of 2024, an increase a decrease of \$0.8 million \$0.3 million, relative to the second third quarter of 2023. For the first six nine months of 2024, compared to the first six months of same period in 2023, interest expense increased \$3.7 million, \$3.4 million to \$25.6 million \$39.6 million. The increase in interest expense is primarily was attributable to an increase in interest rates paid on certain time deposits, and a shift in higher cost brokered deposits to higher fund mortgage warehouse lines, along with a net overall interest rate accounts partially offset by lower balances on other borrowings. There was an unfavorable shift increases in the customer deposit mix in the second quarter of 2024 as compared to the same period in 2023 account balances.

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due to increased demand from customers for Compounding the effect of interest rate increases, there was a shift in the mix of average deposits with increase in higher rates. Higher cost customer yielding money market and time deposits increased deposit account types. These increases were partially offset by \$23.0 million, and wholesale brokered deposits increased by \$129.3 million, while lower cost and noninterest bearing deposits decreased by \$181.4 million. A \$128.9 million decrease decreases in other borrowed funds mitigated some of the unfavorable shift for the quarterly comparison, funds. For the first half nine months of 2024 as compared to the same period in 2023, the average balance of higher cost customer time deposits, interest bearing demand and money market deposits increased \$61.6 million \$51.4 million, and while wholesale brokered deposits increased \$85.9 million, while borrowed \$112.5 million. Borrowed funds decreased \$88.7 million \$126.1 million, and other lower cost or no cost deposits decreased \$218.7 million \$194.0 million.

The Company had \$1.5 billion \$1.3 billion in adjustable and variable rate loans and \$519.9 million \$539.1million in floating rate bonds, as compared to \$316.6 million \$269.4 million in floating rate CDs and \$35.7 million \$35.8 million in floating rate trust preferred securities at June 30, 2024 September 30, 2024. The adjustable-rate loans have repricing frequencies ranging from 30-days to 10-years. Of the \$1.5 billion \$1.3 billion in adjustable and variable rate loans, \$610.7 million \$719.2 million of such adjustable and variable rate loans reprice or mature in the next twelve months. Based on current rates, of the \$719.2 million in adjustable and variable rate loans that reprice or mature over the next twelve months, \$153.1 million, or 21%, are expected to reprice higher, while \$157.1 million, or 22%, are expected to reprice lower. The remaining balance of \$409.0 million is neutral to any repricing adjustment due to maturity or other factors.

Our

The Company's net interest margin was 3.69% 3.66% for the second third quarter of 2024, and 3.39% 3.30% for the second third quarter of 2023, an increase of 30 36 basis points, and 3.66% for the first half nine months of 2024, as compared to 3.43% 3.39% for the first half nine months of 2023, an increase of 23 27 basis points. While the yield of on interest-earning assets increased 71 37 basis points for the second third quarter of 2024, the cost of interest-bearing liabilities increased 23 four basis points for the same period of comparison. The average balance of interest-earning assets decreased \$106.2 million \$74.0 million, while the decrease in interest-bearing liabilities was \$86.0 million \$79.1 million for the same period. The decrease in higher cost borrowed funds over the increase in yield on interest-earning assets improved the net interest margin in the second third quarter of 2024 over the same period in 2023.

For the year-to-date comparison the increase in net interest margin of 23 27 basis points comes from an increase in yield on interest-earning assets of 50 45 basis points partially offset by an increase in interest rates paid on interest-bearing liabilities of 41 28 basis points. The average balance of interest-earning assets decreased \$102.4 million, while the decrease in interest-bearing liabilities was \$82.2 million for the same period. The increase in yield on interest earning assets is over a much larger volume base than of interest-bearing liabilities reflecting the positive change in the net interest margin for the first half nine months of 2024.

The level of net interest income we recognize recognized in any given period depends on a combination of factors including the average volume and yield for interest-earning assets, the average volume and cost of interest-bearing liabilities, and the mix of products which comprise the Company's earning assets, deposits, and other interest-bearing liabilities.

The following tables show average balances for significant balance sheet categories and the amount of interest income or interest expense associated with each category for the noted periods. The tables also display calculated yields on each major component of the Company's investment and loan portfolios, average rates paid on each key segment of the Company's interest-bearing liabilities, and our net interest margin for the noted periods.

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Average Balances and Rates

(dollars in thousands, unaudited)

For the three months ended	For the three months ended	For the three months ended
June 30, 2024	June 30, 2023	September 30, 2024

	Average Balance (1)	Income/ Expense	Average Rate/Yield (2)	Average Balance (1)	Income/ Expense	Average Rate/Yield (2)	Average Balance (1)	Income/ Expense	Average Rate/Yield (2)	A
Assets										
Investments:										
Interest-earning due from banks	\$ 43,407	\$ 598	5.54%	\$ 35,236	\$ 376	4.28%	\$ 88,509	\$ 1,225	5.51%	\$
Taxable	866,270	12,787	5.94%	996,117	13,488	5.43%	830,054	11,991	5.75%	1,
Non-taxable	199,942	1,592	4.05%	352,718	2,741	3.95%	199,261	1,584	4.00%	:
Total investments	1,109,619	14,977	5.58%	1,384,071	16,605	5.02%	1,117,824	14,800	5.42%	1,
Loans:(3)										
Real estate	1,802,190	20,463	4.57%	1,858,512	20,827	4.49%	1,804,099	21,054	4.64%	1,
Agricultural	75,825	1,406	7.46%	28,472	496	6.99%	81,501	1,520	7.42%	
Commercial	77,224	1,174	6.11%	82,743	1,179	5.72%	76,633	1,101	5.72%	
Consumer	3,698	79	8.59%	4,339	88	8.13%	3,558	78	8.72%	
Mortgage warehouse lines	261,768	5,382	8.27%	78,187	1,658	8.51%	303,463	6,227	8.16%	
Other	2,291	14	2.46%	2,483	22	3.55%	2,438	18	2.94%	
Total loans	2,222,996	28,518	5.16%	2,054,736	24,270	4.74%	2,271,692	29,998	5.25%	2,
Total interest-earning assets (4)	3,332,615	43,495	5.30%	3,438,807	40,875	4.85%	3,389,516	44,798	5.31%	3,
Other earning assets	17,058			16,952			17,062			
Non-earning assets	286,020			267,433			288,975			:
Total assets	\$3,635,693			\$3,723,192			\$3,695,553			\$3,
Liabilities and shareholders' equity										
Interest-bearing deposits:										
Demand deposits	\$ 131,510	\$ 733	2.24%	\$ 144,156	\$ 190	0.53%	\$ 169,602	\$ 1,170	2.74%	\$
NOW	398,001	148	0.15%	454,395	76	0.07%	393,328	161	0.16%	
Savings accounts	371,961	80	0.09%	428,222	62	0.06%	359,921	93	0.10%	
Money market	139,507	476	1.37%	123,571	72	0.23%	132,804	542	1.62%	
Time deposits	563,526	6,051	4.32%	540,540	6,022	4.47%	562,251	6,010	4.25%	
Brokered deposits	307,995	3,544	4.63%	178,728	1,521	3.41%	327,141	4,004	4.87%	
Total interest-bearing deposits	1,912,500	11,032	2.32%	1,869,612	7,943	1.70%	1,945,047	11,980	2.45%	1,
Borrowed funds:										
Repurchase agreements	131,478	66	0.20%	79,694	65	0.33%	133,280	60	0.18%	
Other borrowings	98,731	1,042	4.24%	279,633	3,430	4.92%	80,169	788	3.91%	
Long-term debt	49,335	430	3.51%	49,247	429	3.49%	49,357	429	3.46%	
Subordinated debentures	35,723	755	8.50%	35,547	691	7.80%	35,767	751	8.35%	
Total borrowed funds	315,267	2,293	2.93%	444,121	4,615	4.17%	298,573	2,028	2.70%	
Total interest-bearing liabilities	2,227,767	13,325	2.41%	2,313,733	12,558	2.18%	2,243,620	14,008	2.48%	2,
Demand deposits - noninterest-bearing	978,602			1,050,668			995,326			1,
Other liabilities	83,886			54,139			103,571			
Shareholders' equity	345,438			304,652			353,036			:
Total liabilities and shareholders' equity	\$3,635,693			\$3,723,192			\$3,695,553			\$3,
Interest income/interest-earning assets			5.30%			4.85%			5.31%	
Interest expense/interest-earning assets			1.61%			1.46%			1.65%	
Net interest income and margin(5)		\$30,170	3.69%		\$28,317	3.39%		\$30,790	3.66%	

(1) Average balances are obtained from the best available daily or monthly data and are net of deferred fees and related direct costs.

(2) Yields and net interest margin have been computed on a tax equivalent basis utilizing a 21% effective federal tax rate.

(3) Loans are gross of the allowance for expected credit losses. Loan fees have been included in the calculation of interest income. Net loan (costs) fees and loan acquisition FMV amortization were \$(0.3) \$(0.4) million and \$(0.3) million for the quarters ended June 30, 2024 September 30, 2024 and 2023, respectively.

(4) Nonaccrual loans have been included in total loans for purposes of computing total earning assets.

(5) Net interest margin represents net interest income as a percentage of average interest-earning assets.

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Average Balances and Rates

(Dollars in Thousands, Unaudited)

	For the six months ended				For the six months ended			For the nine months ended		
	June 30, 2024				June 30, 2023			September 30, 2023		
	Average Balance (1)	Income/ ExpenseRate/Yield (2)	Average Balance (1)	Income/ ExpenseRate/Yield (2)	Average Balance (1)	Income/ ExpenseRate/Yield (2)	Average Balance (1)	Income/ ExpenseRate/Yield (2)		
Assets										
Investments:										
Interest-earning due from banks	\$ 30,202	\$ 839 5.57%	\$ 20,357	\$ 446 4.42%	\$ 49,779	\$ 14,779	\$ 14,779	\$ 14,779	\$ 14,779	
Taxable	879,720	26,090 5.95%	984,150	25,472 5.22%	863,044	254,044	863,044	254,044	863,044	
Non-taxable	222,469	3,581 4.09%	356,999	5,555 3.97%	214,677	55,677	214,677	55,677	214,677	
Total investments	1,132,391	30,510 5.57%	1,361,506	31,473 4.88%	1,127,500	214,799	1,127,500	214,799	1,127,500	
Loans:(3)										
Real estate	1,804,187	40,653 4.53%	1,863,783	40,726 4.41%	1,804,159	40,726	1,804,159	40,726	1,804,159	
Agricultural	68,622	2,544 7.46%	28,251	929 6.63%	72,946	929	72,946	929	72,946	
Commercial	78,216	2,357 6.06%	76,848	2,172 5.70%	77,684	2,172	77,684	2,172	77,684	
Consumer	3,830	160 8.40%	4,239	176 8.37%	3,739	176	3,739	176	3,739	
Mortgage warehouse lines	199,595	8,203 8.26%	68,707	2,776 8.15%	234,470	2,776	234,470	2,776	234,470	
Other	2,312	28 2.44%	2,474	42 3.42%	2,354	42	2,354	42	2,354	
Total Loans	2,156,762	53,945 5.03%	2,044,302	46,821 4.62%	2,195,352	46,821	2,195,352	46,821	2,195,352	
Total interest-earning assets (4)	3,289,153	84,455 5.22%	3,405,808	78,294 4.72%	3,322,852	78,294	3,322,852	78,294	3,322,852	
Other earning assets	17,202		16,336		17,155		17,155		17,155	
Non-earning assets	278,403		269,950		281,952		281,952		281,952	
Total assets	\$ 3,584,758		\$3,692,094		\$ 3,621,959		\$ 3,621,959		\$ 3,621,959	
Liabilities and shareholders' equity										
Interest-bearing deposits:										
Demand deposits	\$ 134,736	\$ 1,431 2.14%	\$ 147,131	\$ 319 0.44%	\$ 146,443	\$ 319	\$ 146,443	\$ 319	\$ 146,443	
NOW	398,320	232 0.12%	468,939	147 0.06%	396,644	147	396,644	147	396,644	
Savings accounts	374,148	153 0.08%	442,826	127 0.06%	369,371	127	369,371	127	369,371	
Money market	138,597	886 1.29%	129,470	96 0.15%	136,652	96	136,652	96	136,652	
Time Deposits	562,733	12,241 4.37%	501,096	10,528 4.24%	562,571	10,528	562,571	10,528	562,571	
Brokered deposits	256,543	5,733 4.49%	170,688	2,726 3.22%	280,248	2,726	280,248	2,726	280,248	
Total interest-bearing deposits	1,865,077	20,676 2.23%	1,860,150	13,943 1.51%	1,891,929	13,943	1,891,929	13,943	1,891,929	
Borrowed funds:										
Repurchase agreements	121,932	106 0.17%	91,495	146 0.32%	125,742	146	125,742	146	125,742	
Other borrowings	109,103	2,415 4.45%	228,463	5,541 4.89%	99,388	5,541	99,388	5,541	99,388	
Long-term debt	49,324	861 3.51%	49,235	857 3.51%	49,335	857	49,335	857	49,335	
Subordinated debentures	35,700	1,510 8.51%	35,523	1,358 7.71%	35,722	1,358	35,722	1,358	35,722	
Total borrowed funds	316,059	4,892 3.11%	404,716	7,902 3.94%	310,187	7,902	310,187	7,902	310,187	
Total interest-bearing liabilities	2,181,136	25,568 2.36%	2,264,866	21,845 1.95%	2,202,116	21,845	2,202,116	21,845	2,202,116	
Demand deposits - noninterest-bearing	984,489		1,060,666		988,128		988,128		988,128	
Other liabilities	77,210		60,351		86,061		86,061		86,061	
Shareholders' equity	341,923		306,211		345,654		345,654		345,654	
Total liabilities and shareholders' equity	\$ 3,584,758		\$3,692,094		\$ 3,621,959		\$ 3,621,959		\$ 3,621,959	

Interest income/interest-earning assets		5.22%	4.72%	
Interest expense/interest-earning assets		1.56%	1.29%	
Net interest income and margin⁽⁵⁾	\$ 58,887	3.66%	\$ 56,449	3.43%

- (1) Average balances are obtained from the best available daily or monthly data and are net of deferred fees and related direct costs.
- (2) Yields and net interest margin have been computed on a tax equivalent basis utilizing a 21% effective federal tax rate.
- (3) Loans are gross of the allowance for possible loan losses. Loan fees have been included in the calculation of interest income. Net loan fees and loan acquisition FMV amortization were \$(0.7) \$(1.1) million and \$(0.4) \$(0.7) million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.
- (4) Nonaccrual loans have been included in total loans for purposes of computing total earning assets.
- (5) Net interest margin represents net interest income as a percentage of average interest-earning assets.

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The Volume and Rate Variances table below sets forth the dollar difference for the comparative periods in interest earned or paid for each major category of interest-earning assets and interest-bearing liabilities, and the amount of such change attributable to fluctuations in average balances (volume) or differences in average interest rates. Volume variances are equal to the increase or decrease in average balances multiplied by prior period rates, and rate variances are equal to the change in rates multiplied by prior period average balances. Variances attributable to both rate and volume changes, calculated by multiplying the change in rates by the change in average balances, have been allocated to the rate variance.

Volume & Rate Variances

(dollars in thousands, unaudited)

	Three months ended June 30, 2024 over 2023				Six months ended June 30, 2024 over 2023				Three months ended September 30, 2024 over 2023				Nine months ended September 30, 2024 over 2023	
	Increase (decrease) due to				Increase (decrease) due to				Increase (decrease) due to				Increase (decrease) due to	
	Volume	Rate	Mix	Net	Volume	Rate	Mix	Net	Volume	Rate	Mix	Net	Volume	Rate
Assets:														
Investments:														
Federal funds sold/due from time	\$ 88	\$ 109	\$ 25	\$ 222	\$ 216	\$ 119	\$ 58	\$ 393	\$ 1,131	\$ (86)	\$ (235)	\$ 810	\$ 1,132	\$ 610
Taxable	(1,759)	1,216	(158)	(701)	(2,704)	3,715	(393)	618	(2,507)	149	(26)	(2,384)	(5,157)	3,826
Non-taxable	(1,187)	67	(29)	(1,149)	(2,093)	191	(72)	(1,974)	(1,135)	69	(29)	(1,095)	(3,228)	2,102
Total investments ⁽¹⁾	(2,858)	1,392	(162)	(1,628)	(4,581)	4,025	(407)	(963)	(2,511)	132	(290)	(2,669)	(7,253)	4,928
Loans:														
Real estate	(632)	276	(8)	(364)	(1,302)	1,270	(41)	(73)	(559)	873	(24)	290	(1,862)	2,117
Agricultural	825	32	53	910	1,327	119	169	1,615	777	43	51	871	2,107	1,929
Commercial	(80)	80	(5)	(5)	39	143	3	185	(212)	(93)	14	(291)	(162)	453
Consumer	(13)	5	(1)	(9)	(17)	2	(1)	(16)	(15)	7	(1)	(9)	(32)	11
Mortgage warehouse	3,892	(50)	(118)	3,724	5,287	49	91	5,427	4,044	59	120	4,223	9,326	5,193
Other	(2)	(7)	1	(8)	(3)	(12)	1	(14)	—	(1)	—	(1)	(2)	1
Total loans ⁽¹⁾	3,990	336	(78)	4,248	5,331	1,571	222	7,124	4,035	888	160	5,083	9,375	2,414
Total interest-earning assets ⁽¹⁾	\$ 1,132	\$ 1,728	\$ (240)	\$ 2,620	\$ 750	\$ 5,596	\$ (185)	\$ 6,161	\$ 1,524	\$ 1,020	\$ (130)	\$ 2,414	\$ 2,122	\$ 6,642
Liabilities:														
Interest-bearing deposits:														
Demand deposits	\$ (16)	612	(53)	\$ 543	\$ (27)	\$ 1,244	(105)	\$ 1,112	\$ 81	564	112	\$ 757	\$ 6	\$ 1,483
NOW	(9)	93	(12)	72	(22)	126	(19)	85	(6)	107	(8)	93	(28)	2
Savings accounts	(8)	30	(4)	18	(20)	54	(8)	26	(8)	36	(4)	24	(28)	2
Money market	9	350	45	404	7	731	52	790	8	327	13	348	18	1,069
Time deposits	256	(218)	(9)	29	1,295	372	46	1,713	56	(555)	(5)	(504)	1,392	(1,141)
Brokered deposits	1,100	536	387	2,023	1,372	1,088	547	3,007	1,537	475	483	2,495	2,839	1,551

Total interest-bearing deposits (1)	1,332	1,403	354	3,089	2,605	3,615	513	6,733	1,668	954	591	3,213	4,199	4,6
Borrowed funds:														
Repurchase agreements	42	(25)	(16)	1	49	(67)	(22)	(40)	32	(16)	(9)	7	83	
Other Borrowings	(2,219)	(479)	310	(2,388)	(2,895)	(484)	253	(3,126)	(3,246)	(1,040)	788	(3,498)	(6,111)	(1,3
Long-term debt	1	—	—	1	1	3	—	4	1	(1)	—	—	1	
Subordinated debt	3	61	—	64	7	144	1	152	4	(15)	—	(11)	11	
Total borrowed funds (1)	(2,173)	(443)	294	(2,322)	(2,838)	(404)	232	(3,010)	(3,209)	(1,072)	779	(3,502)	(6,016)	(1,3
Total interest-bearing liabilities (1)	(841)	960	648	767	(233)	3,211	745	3,723	(1,541)	(118)	1,370	(289)	(1,817)	3,3
Net interest income (1)	\$ 1,973	\$ 768	\$(888)	\$ 1,853	\$ 983	\$2,385	\$(930)	\$ 2,438	\$ 3,065	\$ 1,138	\$(1,500)	\$ 2,703	\$ 3,939	\$ 3,3

(1) Subtotals are a sum of the categories above and are not recalculated on the portfolio totals.

The volume variance calculated for the **second third** quarter of 2024 relative to the **second third** quarter of 2023 was a favorable **\$2.0 million** **\$3.1 million**; this is primarily from a favorable loan volume variance of \$4.0 million augmented by a favorable reduction in other borrowed funds. There was a favorable rate variance of **\$0.8 million** **\$1.1 million** from the comparative quarter since the weighted average yield on interest-earning assets more than offset the increase in the average yield unfavorable variance on interest-bearing liabilities. There was an unfavorable mix variance of **\$0.9 million** **\$1.5 million** primarily from the sale of bonds with lower yields that has yet to be deployed into higher yielding assets combined with higher interest rates paid on customer time

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and brokered deposits. The Company's net interest margin for the **second third** quarter of 2024 was **3.69%** **3.66%**, as compared to **3.39%** **3.30%** for the **second third** quarter of 2023.

The volume variance calculated for the first **six nine** months of 2024 relative to the first **six nine** months of 2023 reflects a favorable variance of **\$1.0 million** **\$3.9 million**, a favorable rate variance of **\$2.4 million** **\$3.3 million**, and an unfavorable mix variance of **\$0.9 million** **\$2.1 million**. There were increases in loan balances for a favorable volume variance of **\$5.3 million** **\$9.4 million** which was mostly offset by a **\$4.6 million** **\$7.3 million** decrease in investments, due to the balance sheet restructure in 2023. There was a **\$2.8 million** **\$6.0 million** decrease in borrowed funds, partially offset by a **\$2.6 million** **\$4.2 million** increase in interest-bearing deposits. There was a positive rate variance on interest earning assets of **\$5.6 million** **\$6.7 million** for the first **six nine** months of 2024 partially offset by a **\$3.2 million** **\$3.3 million** rate increase in interest earning liabilities. The Company's net interest margin for the first **half nine months** of 2024 was 3.66%, as compared to **3.43%** **3.39%** in the first **half nine months** of 2023.

At **June 30, 2024** **September 30, 2024**, approximately **15%** **17%** of **our** the Company's total portfolio, or **\$342.7 million** **\$403.8 million**, consists of variable rate loans. At **June 30, 2024** **September 30, 2024**, **our** outstanding fixed rate loans represented 31% of **our** the loan portfolio. The remaining **54%** **52%** of **our** the loan portfolio at **June 30, 2024** **September 30, 2024**, consists of adjustable-rate loans; **30%** **59%** of these loans (approximately **\$355.0 million** **\$713.7 million**) will not have the ability to reprice for at least another 3 years. **Our adjustable-rate** **Adjustable-rate** loans have maturities up to 25 years and are generally adjustable every five years after the initial adjustment, which can vary from 5 to 10 years to initial adjustment. Approximately **\$170.9 million** **\$162.6 million** of these adjustable-rate loans have the ability to reprice in 2024, which is expected to have a positive impact on earnings as most of these adjustable-rate loans were made when rates were lower.

Interest **Average interest** earning cash balances for the quarter and year-to-date comparisons have increased and have a positive impact on **our** the net interest margin since cash balances have been earning approximately 5.5%. Average cash and due from banks was **\$43.4 million** **\$88.5 million**, an increase of **\$26.4 million** **\$64.7 million** for the **second third** quarter of 2024 as compared to the same period last year, and was **\$9.8 million** **\$28.3 million** higher for the first **half nine months** of 2024 as compared to the same period in 2023.

Overall average investment securities decreased by **\$282.6 million** **\$321.7 million** for the **second third** quarter of **June 30, 2024, 2024**, as compared to **June 30, 2023, the same period in 2023**, and decreased by **\$239.0 million** **\$266.8 million** for the first **half nine months** of 2024, from the sale of lower yielding bonds from a strategic securities transaction, the proceeds of which were used to paydown higher cost borrowings. The overall investment portfolio had a tax-equivalent yield of **5.43%** **5.27%** at **June 30, 2024** **September 30, 2024**, with an average life of

6.08 4.44 years and average effective duration of 0.8 1.0 years for available-for-sale securities. Approximately \$519.9 million \$464.8 million of the investment securities repriced every 90 days and \$49.3 million \$65.4 million are subordinated debt with an initial fixed rate period of 5 years and floating thereafter.

Interest expense was \$13.3 million for the second quarter of 2024, an increase of \$0.8 million, relative to the second quarter of 2023. For the first six months of 2024, compared to the first six months of 2023, interest expense increased \$3.7 million, to \$25.6 million. The increase Variances in interest expense is primarily attributable to an increase in interest rates paid on certain time were the result of changes discussed under the "Net Interest Income and Net Interest Margin" heading. In addition, average noninterest-bearing demand deposits and a shift in deposits to higher interest rate accounts partially offset by lower balances on other borrowings. There was an unfavorable shift in decreased \$69.6 million or 7% for the deposit mix in the second third quarter of 2024 as compared to the same period in 2023 due to increased demand from customers for higher rates. Higher cost customer time deposits increased by \$23.0 million, and wholesale brokered deposits increased by \$129.3 million, while lower cost and noninterest bearing deposits decreased by \$181.4 million. Mitigating some of the unfavorable shift there was also a \$128.9 million decrease in borrowed funds for the quarterly comparison. For the first half of 2024, as compared to the same period in 2023, customer time deposits increased \$61.6 million, and wholesale brokered deposits increased \$85.9 million, while borrowed funds decreased \$88.7 million, and other deposits decreased \$218.7 million. Average noninterest-bearing demand deposits decreased \$72.1 million or 7% for the second quarter of 2024 as compared to the second third quarter of 2023 and decreased \$76.2 million \$74.0 million or 7% for the first half nine months of 2024 as compared to the first half nine months of 2023.

PROVISION FOR CREDIT LOSSES ON LOANS

Credit risk is inherent in the business of making loans. The Company sets aside an allowance for credit losses on loans, a contra-asset account, through periodic charges to earnings which are reflected in the income statement as the provision for credit losses on loans. Specifically identifiable and quantifiable loan losses are immediately charged off against the allowance, with subsequent recoveries reflected as an increase to the allowance. The Company recorded a provision for credit losses of \$0.9 million in \$1.2 million for the second third quarter of 2024, as compared to a \$0.1 million in the second third quarter of 2023, and

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2023. There was a year-to-date provision for credit losses on loans of \$1.0 million \$2.3 million in 2024, as compared to \$0.3 million in \$0.4 million for the same period for in 2023. The Company's \$0.8 million \$1.1 million increase in the provision for credit losses on loans in the second third quarter of 2024, as compared to the second third quarter of 2023, and the \$0.7 million \$1.8 million year to date increase in the provision for credit losses on loans, compared to the same period in 2023, was primarily due to the impact of \$2.9 million \$3.0 million in net charge-offs in the first six nine months of 2024, with only \$0.4 million in net charge-offs for the first six nine months of 2023. The increase in net charge-offs in the second quarter of 2024 was primarily related to a single office building, which was subsequently foreclosed upon and sold.

The allowance for credit losses on loans is at a level that, in Management's judgment, is adequate to absorb probable credit losses on loans related to individually identified loans as well as probable credit losses in the remaining loan portfolio.

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The Company's policies for monitoring the adequacy of the allowance, determining loan balances that should be charged off, and other detailed information with regard to changes in the allowance are discussed in Note 10 to the consolidated financial statements, and below, under "Allowance for Credit Losses." The process utilized to establish an appropriate credit allowance for losses on loans can result in a high degree of variability in the Company's credit loss provision, and consequently in **our** net earnings.

NONINTEREST INCOME AND NONINTEREST EXPENSE

The following table provides details on the Company's noninterest income and noninterest expense for the three and six-month periods ended June 30, 2024, and 2023:

Noninterest Income/Expense

(dollars in thousands, unaudited)

	For the three months ended June 30, For the six months ended June 30,				For the three months ended September 30, For the six months ended September 30,			
	2024	2023	2024	2023	2024	2023	2024	2023
Noninterest income:								
Service charges and fees on deposit accounts	\$ 6,184	\$ 5,691	\$ 11,909	\$ 11,071	\$ 6,205	\$ 6,055	\$ 12,363	\$ 12,623
Net gain (loss) on sale of securities available-for-sale	—	351	(2,883)	396	73	—	2,995	2,482
Gain on sale of fixed assets	—	—	3,799	—	—	—	381	723
Bank-owned life insurance	523	658	1,738	830	540	558	1,555	1,369
Other	923	1,313	1,656	2,296	971	1,149	2,150	2,048
Total noninterest income	\$ 7,630	\$ 8,013	\$ 16,219	\$ 14,593	\$ 7,789	\$ 7,762	\$ 22,810	\$ 22,562
As a % of average interest-earning assets (1)	0.92%	0.93%	0.99%	0.86%	0.91%	0.89%	2.68%	2.58%
Noninterest expense:								
Salaries and employee benefits	\$ 12,029	\$ 12,129	\$ 25,226	\$ 24,944	\$ 12,363	\$ 12,623	\$ 22,810	\$ 22,562
Occupancy and equipment costs	3,152	2,438	6,177	4,769	2,995	2,482	2,995	2,482
Advertising and marketing costs	338	410	680	923	381	723	381	723
Data processing costs	1,680	1,536	3,189	3,064	1,555	1,369	1,555	1,369
Deposit services costs	2,019	2,532	4,152	4,555	2,150	2,048	2,150	2,048
Loan services costs								
Loan processing	89	151	240	279	184	174	184	174
Foreclosed assets	—	(33)	—	725	—	(60)	—	(60)
Other operating costs	1,094	1,490	2,021	2,479	959	765	959	765
Professional services costs								
Legal & accounting services	714	483	1,240	1,129	547	493	547	493
Director's costs	646	725	1,899	308	501	732	501	732
Other professional service	582	832	1,582	2,039	775	707	775	707
Stationery & supply costs	115	125	263	265	120	148	120	148
Sundry & tellers	234	150	549	481	280	358	280	358
Total noninterest expense	\$ 22,692	\$ 22,968	\$ 47,218	\$ 45,960	\$ 22,810	\$ 22,562	\$ 22,810	\$ 22,562
As a % of average interest-earning assets (1)	2.74%	2.68%	2.89%	2.72%	2.68%	2.58%	2.68%	2.58%

(1) Annualized

Total noninterest income decreased by \$0.4 million, or 5%, was unchanged for the quarter ended June 30, 2024 September 30, 2024, as compared to the same quarter in 2023, and increased \$1.6 million \$1.7 million, or 11% 7% for the comparable year-to-date periods. The quarterly comparison decrease primarily resulted from a \$0.4 million non-recurring bond sale gain period ended September 30, 2024, as compared to the same period in 2023. The year-to-date comparison was impacted by an increase reflects in service charge income on deposit accounts, favorable fluctuations in income on Bank-Owned Life Insurance (BOLI) with underlying investments mapped directly to the Company's deferred compensation plan and a \$2.9 million loss on the sale of investment securities in 2024, offset by a \$3.8 million net gain on the sale/leaseback of bank owned branch locations. There were \$0.5 million balance sheet restructure earlier in the year. Offsetting these positive variances was a decrease in other income which is related to life insurance proceeds received in 2023 with no like amount proceeds in 2024. These favorable variances to the year-to-date comparisons were augmented by a \$1.2 million increase in the value of separate account corporate-owned life insurance assets tied to non-qualified deferred compensation plans.

The Company maintains a non-qualified deferred compensation plan for officers and directors, which allows the participant to defer a portion of their earnings tax-free. Participants are allowed to choose different hypothetical investment alternatives to determine their individualized return on their deferred compensation. The Company has chosen to offset the cost of this liability with a Corporate Owned Life Insurance Policy ("COLI") BOLI which is funded based on deferral elections from the participants. Although the COLI BOLI is not directly tied to the deferred compensation plan, the COLI BOLI is invested in similar fund types as those selected by the participants. There is some inefficiency in net earnings of the COLI BOLI asset as compared to the deferred compensation liability created by the cost of insurance, differences in balances, and differences in individual fund performance. During the second third quarter, and first six-months nine months of 2024, earnings from the COLI BOLI was \$0.3 million, and \$1.3 million \$1.5 million, respectively, while additional expense from the related deferred compensation liability was \$0.3 million, and \$1.4 million \$1.7 million, respectively. Most of such expense is reported as Professional Fees professional fees under Directors Fees directors' fees as such expense is related to deferral of past directors' fees. Specifically, \$0.3 million \$0.2 million for the quarterly comparison, and \$1.2 million \$1.4 million for the year-to-date comparison, respectively, is reflected as directors' fees as part of the overall Professional Fees professional fees expense line item. The tax benefit of having tax-free earnings with tax-deductible expense was \$0.2 million during the second third quarter of 2024, and \$0.8 million \$1.0 million for the first six-months nine-months of 2024.

Service charges on customer deposit account income decreased increased by \$0.5 million \$0.2 million, or 9% 2%, to \$6.2 million in the second third quarter of 2024 as compared to the second third quarter of 2023 and \$0.8 million higher, by \$1.0 million, or 8% 6%, in the first six nine months of 2024, as compared to the same period in 2023. These increases in the quarterly and comparison are primarily from overdraft fees while the year-to-date comparisons are primarily a result of higher interchange and ATM fees, along with increased service charges on analysis accounts.

In the "other" category of noninterest income there was a \$0.4 million \$0.2 million decrease in the second third quarter of 2024 as compared to the second third quarter of 2023, and a \$0.7 million \$0.8 million decrease in the first six nine months of 2024 as compared to the same period in 2023. The Both the quarterly comparison was and year-to-date comparisons were negatively impacted by a decrease in life insurance proceeds and a decrease in limited partnership income. The year-to-date comparison was also negatively impacted by a decrease in life insurance proceeds as well as a decrease in OREO rental income, as all OREO properties were sold, proceeds.

Noninterest Expense:

Total noninterest expense favorably declined increased by \$0.3 million \$0.2 million, or 1%, in the second third quarter of 2024, relative to the second third quarter of 2023, but increased and by \$1.3 million \$1.5 million, or 3% 2%, in for the first six nine months of 2024, as compared to the first six months of same period in 2023.

Salaries and benefits Benefits were \$0.1 million \$0.3 million, or 1% 2%, lower in the second third quarter of 2024 as compared to the second third quarter of 2023, and were \$0.3 million, or 1% higher unchanged for the first six nine months of 2024, compared to the same period in 2023. The reason for Company made strategic decisions in 2023, that created operational efficiencies and reduced costs. While the decrease in the quarterly comparison is due to a strategic decision to improve operational efficiencies. The increase in the year-over-year comparison is primarily due to increases related to annual performance evaluations. Overall number of full-time equivalent employees did not change for the first nine months of 2024, compared to the year ending December 31, 2023, the composition of the workforce changed resulting in reduced salaries and benefits costs, during the third quarter of 2024. There were 501 489 full-time equivalent employees at June 30, 2024, September 30, 2024 as compared to 489 at December 31, 2023, and 502 487 at June 30, 2023 September 30, 2023. Included in full-time equivalent employees at June 30, 2024 were 18 summer interns and temporary employees.

Occupancy expenses increased by \$0.7 million \$0.5 million, and \$1.4 million \$1.9 million for the second third quarter, and the first half nine months of 2024 as compared to the same periods in 2023. The reason for the increases in both comparisons is due to increased rent expense from the sale/leaseback transactions in the fourth quarter of 2023, and first quarter of 2024.

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Other noninterest expense decreased \$0.9 million, or 11%, was unchanged for the second third quarter 2024, as compared to the second third quarter in 2023, and decreased \$0.4 million, or 3% 2% for the first half nine months of 2024, as compared to the same period in 2023. FDIC assessment costs decreased \$0.2 million. While the variances for the quarterly comparisons, but third quarter of 2024, compared to the same period in 2023 offset each other, the primary differences were flat for the year-to-date comparison. Deferred decreases in marketing costs, which is timing related, and a favorable variance in directors deferred compensation expense, for directors decreased \$0.1 million for the quarterly comparison but increased \$0.9 million for the year-to-date comparison, which is linked to the changes in life insurance income BOLI income. These favorable variances were offset by higher communications costs, audit and review costs and loan management software costs. The Company implemented new loan origination and management software to better serve its customers, and to create operational efficiencies. For the year-over-year comparison, the categories of variance were the same as described with the quarterly comparison, except for an unfavorable variance in detail above. There were decreases directors deferred compensation expense, offset by favorable variances in debit card processing and ATM network costs, of \$0.6 million for both the quarterly and year-to-date comparisons due to from a branding change to VISA from Mastercard to Visa last year, and the subsequent conversion costs in 2023 related to that change. Additionally, we incurred a \$0.3 million loss that is reflected in noninterest expense during the second quarter of 2023 with no such like event in 2024. For the year-to-date comparison there was also elevated a decrease in foreclosed assets asset costs, for the first half of 2023, as compared to the same period in 2024, due to the a foreclosure and subsequent sale of one large credit relationship in the first quarter of early 2023.

PROVISION FOR INCOME TAXES

The Company sets aside a provision for income taxes on a monthly basis. The amount of that provision is determined by first applying the Company's statutory income tax rates to estimated taxable income, which is pre-tax book income adjusted for permanent differences, and then subtracting available tax credits. Permanent differences include but are not limited to tax-exempt interest income, BOLI income, and certain book expenses that are not allowed as tax deductions. Our tax Tax credits consist primarily of those generated by investments in low-income housing tax credit funds. The Company's provision for income taxes was 27.8% 26.4% of pre-tax income in the second third quarter of 2024, relative to 26.2% 25.8% in the second third quarter of 2023, and 27.1% 26.8% of pre-tax income for the first half nine months of 2024, relative to 25.0% 25.3% for the same period in 2023. The increase in effective tax rate for both the quarterly and year-to-date comparisons is due to the tax credits, and tax-exempt income representing a smaller percentage of total taxable income.

BALANCE SHEET ANALYSIS

EARNING ASSETS

The Company's interest-earning assets are comprised of loans and investments, including overnight investments and surplus balances held in interest-earning accounts in our its FRB account. The composition, growth characteristics, and credit quality of both of those components are significant determinants of the Company's financial condition. Investments are analyzed in the section immediately below, while the loan portfolio and other factors affecting earning assets are discussed in the sections following investments.

INVESTMENTS

The Company's investments may at any given time consist of debt securities and marketable equity securities (together, the "investment portfolio"), investments in the time deposits of other banks, surplus interest-earning balances in our its FRB account, and overnight fed funds sold. The Company's investments can serve several purposes, including the following: 1) they can provide liquidity for potential funding needs; 2) they provide a source of pledged assets for securing public deposits, bankruptcy deposits and certain borrowed funds which require collateral; 3) they constitute a large base of assets with structural characteristics that can be changed more readily than loan or deposit portfolios, as might be required for interest rate risk management purposes; 4) they are another interest-earning option for the placement of surplus funds when loan demand is light; and 5) they can provide partially tax exempt income.

The investment portfolio is reflected on the balance sheet as investment securities and totaled \$1.0 billion, or 28% 27% of total assets at June 30, 2024 September 30, 2024, and \$1.3 billion, or 36% of total assets at December 31, 2023. The decrease was due to the sale of bonds from the strategic securities transaction. The bonds sold had an average book yield of 2.61% and were used to paydown borrowed funds at an average rate of 5.52%.

The Company carries "available for sale" "available-for-sale" investments at their fair market values and "held to maturity" "held-to-maturity" investments at amortized cost, net of allowance for credit losses. We The Company currently have has the intent and ability to hold our investment securities to maturity, but the securities are all marketable. The expected effective duration was 0.81.0 years for available-for-sale available-

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for-sale investments and 6.05.6 years for held-to-maturity investments at June 30, 2024 September 30, 2024, as compared to 1.4 years for available-for-sale investments and 5.9 years for held-to-maturity investments at December 31, 2023.

The following table sets forth the carrying amount for available-for-sale securities, at fair value, and held-to-maturity securities, at amortized cost, net of the allowance for credit losses of the Company's investment portfolio by investment type as of the dates noted:

Investment Portfolio

(dollars in thousands, unaudited)

	June 30, 2024		December 31, 2023		September 30, 2024		December 31, 2023	
	Carrying Amount	Percent	Carrying Amount	Percent	Carrying Amount	Percent	Carrying Amount	Percent
Available for sale								
Available-for-sale								
U.S. government agencies	\$ 75,415	7.32%	\$ 102,749	7.67%	\$ 61,031	6.01%	\$ 102,749	7.67%
Mortgage-backed securities	31,415	3.05%	99,544	7.43%	80,504	7.93%	99,544	7.43%
State and political subdivisions	41,887	4.07%	194,206	14.50%	42,376	4.17%	194,206	14.50%
Corporate bonds	55,605	5.40%	52,040	3.89%	56,357	5.55%	52,040	3.89%
Collateralized loan obligations	512,465	49.77%	570,662	42.61%	466,042	45.91%	570,662	42.61%
Total available for sale	716,787	69.61%	1,019,201	76.10%				
Held to maturity								
Total available-for-sale					706,310	69.57%	1,019,201	76.10%
Held-to-maturity								
U.S. government agencies	5,005	0.49%	5,522	0.41%	4,845	0.48%	5,522	0.41%
Mortgage-backed securities	135,815	13.20%	142,295	10.62%	132,324	13.03%	142,295	10.62%
State and political subdivisions	172,059	16.70%	172,240	12.86%	171,802	16.92%	172,240	12.86%
Total held to maturity	312,879	30.39%	320,057	23.90%				
Total held-to-maturity					308,971	30.43%	320,057	23.90%
Total securities	\$ 1,029,666	100.00%	\$ 1,339,258	100.00%	\$ 1,015,281	100.00%	\$ 1,339,258	100.00%

Investment securities that were pledged as collateral for borrowings and/or potential borrowings from the FHLB and the FRB, customer repurchase agreements, and other purposes as required or permitted by law totaled \$495.9 million \$463.9 million at June 30, 2024 September 30, 2024, and \$543.9 million \$551.5 million at December 31, 2023, leaving \$533.8 million \$551.4 million in unpledged debt securities at June 30, 2024 September 30, 2024, and \$793.0 million \$787.8 million at December 31, 2023. Securities that were pledged in excess of actual pledging needs and were thus available for liquidity purposes, if needed, totaled \$272.9 million \$286.4 million at June, 2024, September 30, 2024, and \$383.0 million at December 31, 2023.

ALLOWANCE FOR CREDIT LOSSES – AFS INVESTMENT SECURITIES

The allowance for credit losses on AFS investment securities, a contra-asset, is established through periodic provisions for credit losses on AFS investment securities. It is maintained at a level that is considered adequate to measure expected losses across the classes of major investment security types related to fluctuations in market conditions, primarily interest rates, and not reflective of a deterioration in credit value. The Company maintains that it has intent and ability to hold these securities until the amortized cost basis of each security is recovered and

likewise concluded as of both **June 30, 2024** **September 30, 2024** and December 31, 2023 that it was not more likely than not that any of the securities in an unrealized loss position would be required to be sold. The following bullets outline additional support for **management's Management's** conclusion that no amount of the unrealized loss of the securities in an unrealized loss position as of **June 30, 2024** **September 30, 2024** and December 31, 2023, was attributable to credit deterioration and a risk of loss, requiring an allowance for credit losses.

- US Government Agencies are supported by the full faith and creditworthiness of the U.S. Federal Government and the management did not consider a default, much less a loss on these securities to be a reasonable possibility as of either **June 30, 2024** **September 30, 2024**, or December 31, 2023.
- Mortgage-backed securities issued by government sponsored entities ("GSEs") carry an implicit guarantee by the U.S. Federal Government, as the GSEs can draw funds from the U.S. Federal Government up to a limit, with an implied ability to draw funds beyond the limit. Management did not consider a default, much less a loss on these securities to be a reasonable possibility as of either **June 30, 2024** **September 30, 2024**, or December 31, 2023.

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- Management routinely monitors third party credit grades of the municipal issuers in the Company's state and political subdivisions **portfolio and as of both June 30, 2024, or December 31, 2023 noted that all municipal securities in an unrealized loss position were either investment grade rated or guaranteed. portfolio.** On a quarterly basis management receives financial information from a third-party service in order to monitor the underlying issuer's financial stability. In addition, management performs annual reviews of the underlying municipal issuers financial statements in order to evaluate stability and repayment capacity and has noted no concerns with any of the bonds in the Company's State and Local portfolio. As of both **June 30, 2024** **September 30, 2024** or December 31, 2023 management concluded that no allowance for credit losses was warranted on any of the Company's municipal securities and the unrealized loss position of each of the securities reflected fluctuations in market conditions, primarily interest rates, since the time of purchase.
- The Company has invested in corporate debt issuances of other financial institutions. Various financial metrics of each of the issuing financial institutions are reviewed by management **quarterly, quarterly;** these metrics include credit quality, reserve adequacy, profitability and capital. Following review of the financial metrics available for each of the underlying institutions as of **June 30, 2024** **September 30, 2024** or December 31, 2023 management concluded that the unrealized loss position of these securities related exclusively to the fluctuation in market conditions, primarily interest rates, from the date of purchase, and were not reflective of any credit concerns with the issuing financial institution. These bonds were subject to a credit review by the credit administration department prior to their purchase and are subject to ongoing quarterly reviews.
- The Company has invested exclusively in AA and AAA tranches of various collateralized loan obligations, which are securitizations of commercial loans. Each purchase is subject to a credit, concentration, and structure review by the credit administration department prior to their purchase and are subject to ongoing quarterly reviews. Management monitors the credit rating of these investments on a quarterly basis in addition to various performance metrics available through a third-party informational service. Following review of financial metrics as of both **June 30, 2024** **September 30, 2024** or December 31, 2023 management concluded that the unrealized loss position of these securities related exclusively to the fluctuation in market conditions, primarily interest rate spreads due to changes in supply or demand, from the date of purchase, and were not reflective of any credit concerns with the tranches comprising the Company's investments.

LOAN PORTFOLIO

A distribution of the Company's loans showing the balance and percentage of loans by type is presented for the noted periods in the table below. The balances in the table are after deferred or unamortized loan origination, extension, or commitment fees, and deferred origination costs. While not reflected in the loan totals and not currently comprising a material segment of **our** lending activities, the Company also occasionally originates and sells, or participates out portions of loans to non-affiliated investors.

Loan Distribution

(dollars in thousands, unaudited)

June 30, 2024		December 31, 2023		September 30, 2024		December 31, 2023	
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent

Real estate:							
Residential real estate	\$ 397,964	17.81%	\$ 413,262	19.77%	\$ 389,294	16.77%	\$ 413,262 19.77%
Commercial real estate	1,314,128	58.80%	1,325,494	63.41%	1,336,266	57.56%	1,325,494 63.41%
Other construction/land	5,990	0.27%	6,268	0.30%	5,629	0.24%	6,268 0.30%
Farmland	80,992	3.62%	67,510	3.23%	80,753	3.48%	67,510 3.23%
Total real estate	1,799,074	80.50%	1,812,534	86.71%	1,811,942	78.06%	1,812,534 86.71%
Other commercial	158,123	7.08%	157,760	7.54%	169,770	7.31%	157,760 7.54%
Mortgage warehouse lines	274,058	12.26%	116,000	5.55%	335,776	14.48%	116,000 5.55%
Consumer loans	3,561	0.16%	4,090	0.20%	3,537	0.15%	4,090 0.20%
Total loans	\$ 2,234,816	100.00%	\$ 2,090,384	100.00%	\$ 2,321,025	100.00%	\$ 2,090,384 100.00%

Gross loans at \$2.3 billion, increased \$230.6 million or 11% during the first nine months of 2024. There was a \$219.8 million favorable change in mortgage warehouse lines, a \$13.2 million increase in farmland loans, a \$10.7 million increase

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Gross loans at \$2.2 billion, increased \$144.4 million or 7% during the first six months of 2024. There was a \$158.1 million favorable change in mortgage warehouse lines, a \$13.5 million increase in agricultural commercial real estate loans, offset by unfavorable and a \$12.0 million increase in other commercial loans. Counterbalancing these positive loan variances were loan paydowns and maturities resulting in all other loan categories, the largest of which was a \$27.0 million decrease net declines in other non-agricultural residential real estate loans.

As indicated in the loan roll forward table below, new credit extended for the second third quarter of 2024, increased \$5.3 million, and increased \$3.3 million year-to-date 2024, on a linked-quarter basis, but decreased \$7.7 million over the same period in 2023. Loan growth, excluding 2023, and decreased \$22.1 million for the year-to-date comparisons. The Company also had \$48.4 million in loan paydowns and maturities; however, increases in mortgage warehouse lines, has been slower and credit line utilization of \$73.3 million had a positive impact in 2024 due the third quarter. The year-to-date decline in new credit extended compared to the same period in 2023, is attributable to competitive pressures in our the Company's market and for strong credit relationships, combined with a lower loan demand in overall due to the current high interest rate environment. The increase of \$70.5 million in mortgage warehouse line utilization, was due in part to a \$186.0 million increase in mortgage warehouse commitments for the first half of 2024, and subsequent utilization of those lines.

LOAN ROLLFORWARD (Dollars in Thousands, Unaudited)	For the three months ended:					For the six months ended:					For the three months ended:					For the nine months ended:				
	June 30,		March 31,		June 30,		June 30,		June 30,		September		June 30,		September		September		September	
	2024		2024		2023		2024		2023		30, 2024		2024		30, 2023		30, 2024		2023	
Gross loans beginning balance	\$2,156,864	\$2,090,075	\$2,033,968	\$2,090,075	\$2,052,940	\$2,234,528	\$2,156,864	\$2,094,391	\$2,090,075	\$2,090,075	\$2,234,528	\$2,156,864	\$2,094,391	\$2,090,075	\$2,090,075	\$2,090,075	\$2,090,075	\$2,090,075	\$2,090,075	\$2,090,075
New credit extended	40,313	34,966	37,030	75,279	89,639	61,239	40,313	68,980	136,518	136,518	61,239	40,313	68,980	136,518	136,518	61,239	40,313	68,980	136,518	136,518
Changes in line of credit utilization (1)	(10,412)	(24,928)	6,622	(35,340)	(19,168)	11,572	(10,412)	(22,517)	(23,768)	(23,768)	11,572	(10,412)	(22,517)	(23,768)	(23,768)	11,572	(10,412)	(22,517)	(23,768)	(23,768)
Change in mortgage warehouse	70,498	87,562	42,145	158,060	45,178	61,718	70,498	(3,032)	219,778	219,778	61,718	70,498	(3,032)	219,778	219,778	61,718	70,498	(3,032)	219,778	219,778
Pay-downs, maturities, charge-offs and amortization	(22,735)	(30,811)	(25,374)	(53,546)	(74,198)	(48,428)	(22,735)	(37,012)	(101,974)	(101,974)	(48,428)	(22,735)	(37,012)	(101,974)	(101,974)	(48,428)	(22,735)	(37,012)	(101,974)	(101,974)
Gross loans ending balance	\$2,234,528	\$2,156,864	\$2,094,391	\$2,234,528	\$2,094,391	\$2,320,629	\$2,234,528	\$2,100,810	\$2,320,629	\$2,320,629	\$2,320,629	\$2,234,528	\$2,100,810	\$2,320,629	\$2,320,629	\$2,320,629	\$2,320,629	\$2,320,629	\$2,320,629	\$2,320,629

(1) Change does not include new balances on lines of credit extended during the respective periods as such balances are included as part of "New credit extended" line above.

Over the past several years, the Company has strategically focused on reducing concentrations in commercial real estate, especially amongst areas management deemed to be higher risk such as construction, office real estate, and hospitality. At June 30, 2024 September 30, 2024, the total regulatory CRE concentration ratio of total CRE over Tier 1 Capital plus allowance was 241% 236.43% as compared to 243% 242.88% at December 31, 2023, and 243% 243.07% at June 30, 2023 September 30, 2023. Further, the overall level of construction and land development lending had declined to 1% of regulatory capital plus allowance for credit losses at June 30, 2024 September 30, 2024. At June

30, 2024 September 30, 2024, our non-owner occupied commercial real estate includes \$303 million \$304.7 million of retail; \$152 million \$142.1 million of warehouse/industrial; \$177 million \$172.9 million of office; and \$181 million \$200.9 million of hospitality. Approximately \$172.9 million, or 5% of the office real estate matures in less than two years.

Unused commitments, excluding mortgage warehouse and overdraft lines, were \$247.1 million \$237.7 million at June 30, 2024 September 30, 2024, compared to \$203.6 million at December 31, 2023. Total line utilization, excluding mortgage warehouse and overdraft lines, was 57% 59.2% at June 30, 2024 September 30, 2024, compared to 62% and 62.3% at December 31, 2023. Mortgage warehouse utilization increased to 54% 54.6% at June 30, 2024 September 30, 2024, as compared to 36% 36.2% at December 31, 2023. The increase in mortgage warehouse utilization during the first half nine months of 2024 was due to \$186.0 million \$297.6 million in new mortgage warehouse lines and subsequent utilization of those lines.

It should be noted that the mortgage warehouse lines were moved to repurchase agreement lines in 2022 and 2023. The repurchase agreement structure provides stronger credit protection to the Company, as well as more favorable regulatory capital treatment as these repurchase lines are not considered off-balance sheet commitments as they are unconditionally cancellable.

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NONPERFORMING ASSETS

Nonperforming assets currently is comprised of loans for which the Company is no longer accruing interest, but can include OREO and other foreclosed assets.

Nonperforming assets

(dollars in thousands, unaudited)

	June 30, 2024	December 31, 2023	June 30, 2023	September 30, 2024	December 31, 2023	September 30, 2023
Nonperforming Loans:						
Real estate:						
Residential real estate	\$ 67	\$ 414	\$ 470	\$ 42	\$ 414	\$ 470
Commercial real estate	—	7,457	125	2,655	7,457	125
Farmland	6,370	—	73	7,528	—	73
Total Real Estate nonperforming loans	6,437	7,871	668	10,225	7,871	668
Other commercial	36	114	473	123	114	473
Total Nonperforming Loans	6,473	7,985	1,141	10,348	7,985	1,141
Foreclosed assets	—	—	—	—	—	—
Total Nonperforming Assets	\$ 6,473	\$ 7,985	\$ 1,141	\$ 10,348	\$ 7,985	\$ 1,141
Nonperforming loans as a % of total gross loans	0.29%	0.38%	0.05%	0.45%	0.38%	0.05%
Nonperforming assets as a % of total gross loans and foreclosed assets	0.29%	0.38%	0.05%	0.45%	0.38%	0.05%

Total nonperforming assets, comprised of non-accrual nonaccrual loans, decreased increased by \$1.5 million, or 19%, during \$2.4 million to \$10.3 million for the first half nine months of 2024, due to the foreclosure and subsequent sale of one commercial real estate loan. The balance of nonaccrual loans at June 30, 2024 is primarily one nonperforming dairy loan classified as farmland. 2024. The Company's ratio of nonperforming assets loans to gross loans plus foreclosed assets decreased increased to 0.29% 0.45% at June 30, 2024 September 30, 2024, from 0.38% at December 31, 2023. The increase in nonperforming loans resulted from a loan collateralized by agricultural property specifically related to dairy farming and an office commercial real estate loan. This increase was offset by the foreclosure, and subsequent first quarter 2024 sale of an office commercial real estate property which was nonperforming at December 31, 2023. All of the Company's nonperforming

assets are individually evaluated for credit loss quarterly and management believes the established allowance for credit loss on such loans is appropriate.

There were no foreclosed assets at **June 30, 2024** **September 30, 2024**, and December 31, 2023, however, when the Company does own foreclosed assets, they are periodically evaluated and written down to their fair value less expected disposition costs, if lower than the then-current carrying value.

An action plan is in place for each **of our** non-accruing **loans loan** and they are all being actively managed. Collection efforts are continuously pursued for all nonperforming loans, but **we the Company** cannot provide assurance that they will be resolved in a timely manner or that nonperforming balances will not increase.

The Company had **\$3.2 million** **\$0.4 million** in loans past due 30-89 days at **June 30, 2024** **September 30, 2024**. This is **an increase** **a decrease** of **\$2.9 million** **\$1.7 million** over the balance at December 31, 2023. All of these past due loans are under management supervision and every effort is being taken to assist the borrowers and manage credit risk in this regard.

ALLOWANCE FOR CREDIT LOSSES – LOANS

The allowance for credit losses on loans, a contra-asset, is established through periodic provisions for credit losses on loans. It is maintained at a level that is considered adequate to measure expected losses on individually identified loans, as well as expected losses inherent in the remaining loan portfolio. Specifically identifiable and quantifiable losses are immediately charged off against the allowance; recoveries are generally recorded only when sufficient cash payments are received subsequent to the charge-off.

The Company's allowance for credit losses on loans was \$21.6 million at June 30, 2024, and \$23.5 million at December 31, 2023. The allowance was 0.97% of total loans at June 30, 2024, and 1.12% of total loans at December 31, 2023. The decreased allowance for credit losses on loans was primarily due to a \$1.6 million reduction in the allowance on loans

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The Company's allowance for credit losses on loans was \$22.7 million at September 30, 2024, and \$23.5 million at December 31, 2023. The allowance was 0.98% of gross loans at September 30, 2024, and 1.12% of total loans at December 31, 2023. The decrease in the allowance resulted from a reduction in specific individual reserves on individually evaluated **for expected credit losses** loans due to the charge-off associated with one commercial real estate loan. Management's detailed analysis indicates that the Company's allowance for credit losses on loans should be sufficient to cover credit losses for the life of the loans outstanding as of **June 30, 2024** **September 30, 2024**, but no assurance can be given that the Company will not experience substantial future losses relative to the size of the credit loss allowance for loans. Furthermore, fluctuations in credit quality, changes in economic conditions, updated accounting or regulatory requirements, and/or other factors could induce the Company to augment or reduce the allowance. The Company calculates the allowance for credit losses using a combination of quantitative and qualitative factors applied to loans segmented by call report category. The largest increase in loan balances was from mortgage warehouse lines which has the lowest reserve rate in the allowance for credit losses at 0.14%. Therefore, at September 30, 2024, approximately \$0.5 million of the allowance for credit losses is attributable to mortgage warehouse lines. A separate allowance of **\$0.5 million** **\$0.06 million** for potential credit losses inherent in unused commitments is included in other liabilities at **June 30, 2024** **September 30, 2024**, **unchanged** **an increase of \$0.1 million**, from December 31, 2023.

The following table summarizes activity in the credit allowance for losses on loans for the noted periods:

Allowance for Credit Losses on Loans

(dollars in thousands, unaudited)

For						
the three	For the three	For the six	For the six		For the three	For the three
months	months	months	months		months	months
ended	ended	ended	ended	For the year ended	ended	ended

	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023	December 31, 2023	September 30, 2024	September 30, 2023
Balances:							
Average gross loans outstanding during period (1)	\$2,222,996	\$ 2,054,736	\$2,156,762	\$2,044,302	\$ 2,006,283	\$ 2,271,692	\$ 2,044,302
Gross Loans outstanding at end of period	\$2,234,528	\$ 2,094,391	\$2,234,528	\$2,094,391	\$ 2,090,075	\$ 2,320,629	\$ 2,094,391
Allowance for credit losses on loans:							
Balance at beginning of period	\$ 23,140	\$ 23,090	\$ 23,500	\$ 23,060	\$ 23,060	\$ 21,640	\$ 23,060
Provision charged to expense	921	77	1,018	327	4,058	1,240	327
Charge-offs							
Real estate							
Residential real estate	—	—	—	—	30	—	—
Commercial real estate	2,448	—	2,468	—	2,266	(30)	—
Farmland	—	—	410	1,248	1,248	—	—
Total real estate	2,448	—	2,878	1,248	3,544	(30)	—
Other commercial	40	52	326	390	1,349	39	390
Consumer loans	326	472	738	866	1,728	388	866
Total	\$ 2,814	\$ 524	\$ 3,942	\$ 2,504	\$ 6,621	\$ 397	\$ 2,504
Recoveries							
Real estate							
Residential real estate	\$ 60	\$ —	\$ 60	\$ 205	\$ 206	\$ —	\$ 205
Commercial real estate	—	17	—	17	274	—	17
Farmland	—	—	—	257	—	—	—
Total real estate	60	17	60	479	480	—	479
Other commercial	103	80	544	1,128	1,538	16	1,128
Consumer loans	230	270	460	520	985	211	520
Total	\$ 393	\$ 367	\$ 1,064	\$ 2,127	\$ 3,003	\$ 227	\$ 2,127
Net loan charge-offs	\$ 2,421	\$ 157	\$ 2,878	\$ 377	\$ 3,618	\$ 170	\$ 377
Balance at end of period	\$ 21,640	\$ 23,010	\$ 21,640	\$ 23,010	\$ 23,500	\$ 22,710	\$ 23,010
RATIOS							
Net charge-offs to average Loans (annualized)	0.44%	0.03%	0.27%	0.04%	0.18%	0.03%	0.04%
Allowance for credit losses on Loans to gross Loans at end of period	0.97%	1.10%	0.97%	1.10%	1.12%	0.98%	1.10%
Net loan charge-offs to allowance for credit losses on Loans at end of period	11.19%	0.68%	13.30%	1.64%	15.40%	0.75%	1.64%
Net loan charge-offs to provision for credit losses on Loans	262.87%	203.90%	282.71%	115.29%	89.16%	13.71%	115.29%

(1) Average balances are obtained from the best available daily or monthly data and are net of deferred fees and related direct costs.

The Company's allowance for credit losses on loans at June 30, 2024 represents Management's best estimate

[Table of expected losses in the loan portfolio as of that date, but no assurance can be given that the Company will not experience substantial losses relative to the size of the allowance. Furthermore, fluctuations in credit quality, changes in economic conditions, updated accounting or regulatory requirements, and/or other factors could induce us to augment or reduce the allowance. Contents](#)

OFF-BALANCE SHEET ARRANGEMENTS

The Company maintains commitments to extend credit in the normal course of business, as long as there are no violations of conditions established in the outstanding contractual arrangements. It is unlikely that all unused commitments will ultimately be drawn down. Unused commitments to extend credit, which included standby letters of credit, totaled **\$554.2**

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million \$589.7 million at June 30, 2024 September 30, 2024, and \$487.1 million at December 31, 2023, representing approximately 25% of gross loans outstanding at June 30, 2024 September 30, 2024, and 23% at December 31, 2023. Included in unused commitments are mortgage warehouse lines which are mostly in the form of repurchase lines and are unconditionally cancellable. Unused commitments on mortgage warehouse lines were \$232.4 million \$279.2 million at June 30, 2024 September 30, 2024, and \$204.5 million at December 31, 2023, while utilization was 54% 55% and 36%, respectively.

The increase in utilization during the first half nine months of 2024 was due to new customers in the mortgage warehouse product that ramped up their utilization. Unused commitments exclusive of mortgage warehouse lines and overdraft lines of credit, have increased \$43.6 million \$34.1 million or 21% 17% for the first six nine months of 2024 and are due to an increase in new lines of credit and higher utilization on existing lines of credit. The Company also had undrawn letters of credit issued to customers totaling \$5.3 million at June 30, 2024 September 30, 2024, and \$5.0 million at December 31, 2023. The effect on the Company's revenues, expenses, cash flows and liquidity from the unused portion of commitments to provide credit cannot be reasonably predicted because there is no guarantee that the lines of credit will ever be used. However, the "Liquidity" section in this Form 10-Q outlines resources available to draw upon should we the Company be required to fund a significant portion of unused commitments.

In addition to unused commitments to provide credit, the Company is utilizing a \$125 million letter of credit issued by the FHLB on the Company's behalf as security for certain local agency deposits which totaled \$95.0 million \$77.7 million at June 30, 2024 September 30, 2024. That letter of credit is backed by loans that are pledged to the FHLB by the Company. For more information on the Company's off-balance sheet arrangements, see Note 7 to the consolidated financial statements located elsewhere herein.

OTHER ASSETS

Interest-earning cash balances were discussed above in the "Investments" section, but the Company also maintains a certain level of cash on hand in the normal course of business as well as non-earning deposits at other financial institutions. Our The Company's balance of cash and due from banks depends on the timing of collection of outstanding cash items (checks), the amount of cash held at our in the branches, and our the reserve requirement among other things, and it is subject to significant fluctuations in the normal course of business. While cash flows are normally predictable within limits, those limits are fairly broad and the Company manages its short-term cash position through the utilization of overnight loans to, and borrowings from, correspondent banks, including the FRB and the FHLB. Should a large "short" overnight position persist for any length of time, the Company typically raises money through focused retail deposit gathering efforts or by adding brokered time deposits. If a "long" position is prevalent, we the Company could let brokered deposits or other wholesale borrowings roll off as they mature, or we might invest excess liquidity into investments or loans, subject to the Company's risk tolerances. The Company's balance of non-earning cash and due from banks was \$96.0 million \$97.6 million at June 30, 2024 September 30, 2024, relative to \$73.7 million at December 31, 2023.

Foreclosed assets are discussed above in the section titled "Nonperforming Assets."

Net premises and equipment decreased by \$0.9 million \$1.3 million during the first half nine months of 2024, to \$16.0 million \$15.6 million. This decline was a result of the sale/leaseback of two bank-owned branch locations in the first quarter of 2024.

Goodwill was \$27.4 million at June 30, 2024 September 30, 2024, unchanged during the first half nine months of 2024. Goodwill is tested for impairment annually, unless events and circumstances exist which indicate that an impairment test should be performed. The annual goodwill impairment test was last performed on October 1,

2023, and it was determined that no impairment existed. Management continues to evaluate whether or not a triggering event occurs, or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount before the next annual test in 2024.

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Bank-owned life insurance, with a balance of \$53.4 million \$54.0 million at June 30, 2024 September 30, 2024, is discussed in detail above in the "Noninterest Income and Noninterest Expense" section.

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DEPOSITS AND INTEREST-BEARING LIABILITIES

DEPOSITS

Deposits represent another key balance sheet category impacting the Company's net interest income and profitability metrics. Deposits provide liquidity to fund growth in earning assets, and the Company's net interest margin is improved to the extent that growth in deposits is concentrated in less volatile and typically less costly non-maturity accounts such as demand deposit accounts, NOW accounts, savings accounts, and money market demand accounts. Information concerning average balances and rates paid by deposit type is included in the Average Balances and Rates tables appearing above, in the section titled "Net Interest Income and Net Interest Margin." A distribution of the Company's deposits by type, showing the period-end balance and percentage of total deposits, is presented as of the dates indicated in the following table.

Deposit Distribution

(dollars in thousands, unaudited)

	June 30, 2024		December 31, 2023		September 30, 2024		December 31, 2023	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Noninterest-bearing demand deposits	\$ 986,927	33.54%	\$1,020,772	36.98%	\$1,013,743	34.23%	\$1,020,772	36.98%
Interest-bearing demand deposits	134,114	4.56%	128,784	4.66%	206,094	6.96%	128,784	4.66%
NOW	403,617	13.72%	405,163	14.67%	389,578	13.15%	405,163	14.67%
Savings	368,169	12.51%	370,806	13.43%	356,725	12.04%	370,806	13.43%
Money market	136,853	4.65%	145,591	5.27%	135,948	4.59%	145,591	5.27%
Time	566,132	19.24%	555,107	20.10%	550,121	18.57%	555,107	20.10%
Brokered deposits	346,598	11.78%	135,000	4.89%	309,950	10.46%	135,000	4.89%
Total deposits	\$2,942,410	100.00%	\$2,761,223	100.00%	\$2,962,159	100.00%	\$2,761,223	100.00%

Deposit balances grew by \$181.2 million \$200.9 million, or 7%, during the first half nine months of 2024 to \$2.9 billion \$3.0 billion at June 30, 2024 September 30, 2024. Core non-maturity deposits decreased \$41.4 million increased by \$31.0 million, or 2% 6%, for the first half nine months of 2024, while customer time deposits

increased decreased by \$11.0 million \$5.0 million, or 2% due mostly to an increase in variable rate CD accounts by existing customers seeking higher interest rates on their deposits. Brokered 1%. Wholesale brokered deposits increased \$211.6 million \$175.0 million during the first half nine months of 2024, or 157% 130%. This was a strategic decision to fund increased usage on mortgage warehouse lines. Overall noninterest-bearing deposits as a percent of total deposits decreased to 33.5% 34.2%, at June, 2024, September 30, 2024, compared to 37.0% at December 31, 2023.

Overall uninsured deposits are estimated to be approximately \$805.4 million \$816.2 million, or 27% 28% of total deposit balances, excluding public agency deposits that are subject to collateralization through a letter of credit issued by the FHLB. In addition, uninsured deposits of the Company's Bank's customers are eligible for FDIC pass-through insurance if the customer opens an IntraFi Insured Cash Sweep (ICS) account or a reciprocal time deposit through the Certificate of Deposit Account Registry System (CDARS). IntraFi allows for up to \$250 million \$265 million per customer of combined pass-through FDIC insurance, which would more than cover each of the Company's Bank's deposit customers if such customer desired to have such pass-through insurance. The Company Bank maintains a diversified deposit base with no significant customer concentrations and does not bank any cryptocurrency companies. At June 30, 2024 September 30, 2024, the Company had approximately 121,000 120,000 accounts and the 25 largest deposit balance customers had balances of less than 14% approximately 15% of overall deposits.

OTHER INTEREST-BEARING LIABILITIES

The Company's non-deposit borrowings may, at any given time, include fed funds purchased from correspondent banks, borrowings from the FHLB, advances from the FRB, securities sold under agreements to repurchase, subordinated notes and/or junior subordinated debentures. The Company uses short-term FHLB advances and fed funds purchased on unsecured lines to support liquidity needs created by seasonal deposit flows, to temporarily satisfy funding needs from

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increased loan demand, and for other short-term purposes. The FHLB line consists of both a secured and unsecured component. The secured component depends on the level of pledged collateral.

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Total non-deposit interest-bearing liabilities decreased by \$239.5 million \$262.1 million, during the first half nine months of 2024 primarily due to a decrease in overnight fed funds and short term FHLB borrowings. This was a result of a balance sheet restructure in which bonds with a book yield of 2.61% were sold to pay off higher cost borrowed funds at an average rate of 5.52%.

Customer repurchase agreements increased from \$107.1 million at December 31, 2023, to \$148.0 million \$125.5 million at June 30, 2024 September 30, 2024. Customer repurchase agreements provide collateral for customers that sweep excess deposit balances each day into a separate repurchase agreement account where the Company effectively sells certain government bonds to customers daily and then repurchases the same bonds on

the next business day. Although these accounts are not deposits and are not FDIC insured, they provide customers with larger account balances the ability to have their account secured with collateral.

Overnight and short-term borrowings decreased \$280.5.0 million \$280.5 million and were paid in full at June 30, 2024 September 30, 2024, from \$280.5 million at December 31, 2023, as mentioned previously as a result of a balance sheet restructure.

Long-term debt at June 30, 2024 September 30, 2024, consisted of \$49.3 million \$49.4 million of subordinated debt. This remained relatively unchanged from December 31, 2023. Subordinated debentures related to \$35.7 million \$35.8 million of trust preferred securities at both June 30, 2024 September 30, 2024, and December 31, 2023. Trust preferred securities are variable rate instruments benchmarked against the Secured Overnight Financing Rate (SOFR).

OTHER NONINTEREST-BEARING LIABILITIES

Other liabilities are principally comprised of operating lease right-of-use liabilities, accrued interest payable, other accrued but unpaid expenses, and certain clearing amounts. The Company's balance of other liabilities was \$75.2 million \$84.0 million at June 30, 2024 September 30, 2024, as compared to \$77.4 million at December 31, 2023, a decrease an increase of \$2.2 million \$6.6 million or 3% 8%. The decrease increase was primarily driven by accrued payables that settled as of June 30, 2024 September 30, 2024, that were accrued for at December 31, 2023 had not settled.

LIQUIDITY AND MARKET RISK MANAGEMENT

LIQUIDITY

The Company continues to have substantial liquidity though unencumbered assets and available borrowings. In addition, the Company's loan-to-deposit ratio was 78% at September 30, 2024, and 76% at both June 30, 2024, and December 31, 2023.

Liquidity management refers to the Company's ability to maintain cash flows that are adequate to fund operations and meet other obligations and commitments in a timely and cost-effective manner. Detailed cash flow projections are reviewed by Management on a monthly basis, with various stress scenarios applied to assess our assessthe Company's ability to meet liquidity needs under unusual or adverse conditions. Liquidity ratios are also calculated and reviewed on a regular basis. While those ratios are merely indicators and are not measures of actual liquidity, they are closely monitored, and we arethe Company is committed to maintaining adequate liquidity resources to draw upon should unexpected needs arise.

The Company, on occasion, experiences cash needs as the result of loan growth, deposit outflows, asset purchases or liability repayments. To meet these short-term needs, we the Company can borrow overnight funds from other financial institutions, draw advances via FHLB lines of credit, or solicit brokered deposits if customer deposits are not immediately obtainable from local sources.

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At June 30, 2024 September 30, 2024, and December 31, 2023, the Company had the following sources of primary and secondary liquidity (dollars in thousands):

Primary and secondary liquidity sources	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Cash and cash equivalents	\$ 183,990	\$ 78,602	\$ 132,797	\$ 78,602
Unpledged investment securities	533,799	792,965	556,231	792,965

Excess pledged securities	272,869	382,965	286,355	382,965
FHLB borrowing availability	672,300	586,726	618,142	586,726
Unsecured lines of credit	504,785	374,785	504,785	374,785
Funds available through fed discount window	348,444	392,034	342,711	392,034
Totals	\$ 2,516,187	\$ 2,608,077	\$ 2,441,021	\$ 2,608,077

Available funding sources detailed above of \$2.5 billion \$2.4 billion represented 86% 82% of total deposits and 312% 299% of estimated uninsured and/or uncollateralized deposits as of June 30, 2024 September 30, 2024. Unpledged investment securities include \$266.4 million of CLOs. As CLO's have a rate that resets every 90 days to current rates, the volatility of pricing of these securities is limited and the Company could sell such securities for liquidity at a significantly lower loss than selling lower rate fixed term securities such as US government bonds or municipal bonds.

The Company performs regular stress tests on its liquidity and at this time, Management believes that we have it has sufficient primary and secondary liquidity sources for operations.

The Company has a higher level of actual balance sheet liquidity than might otherwise be the case since we utilize the Company utilizes a letter of credit from the FHLB rather than investment securities for certain pledging requirements. That letter of credit, which is backed by loans pledged to the FHLB by the Company, totaled \$125 million at June 30, 2024 September 30, 2024, and December 31, 2023. Other sources of liquidity include the brokered deposit market, deposit listing services, Intrafi, and the ability to offer local time-deposit campaigns. Management is of the opinion that available investments and other potentially liquid assets, along with standby funding sources it has arranged, are more than sufficient to meet the Company's current and anticipated short-term liquidity needs.

The Company's primary liquidity ratio and gross loans to deposits were 23.45% 22.59% and 75.95% 78.34%, respectively, at June 30, 2024 September 30, 2024, as compared to internal policy guidelines of "greater than 15%" and "less than 95%." Ratios and sub-limits for the various components comprising wholesale funding, which were all well within policy guidelines at June 30, 2024 September 30, 2024, are also periodically reviewed by Management and the Board. The Company has been able to maintain a robust liquidity position in recent periods, but no assurance can be provided that our the liquidity position will continue at current strong levels.

The holding company's primary uses of funds include operating expenses incurred in the normal course of business, interest on trust preferred securities and subordinated debt, shareholder dividends, and share repurchases. Its primary source of funds is dividends from the Bank since the holding company does not conduct regular banking operations. As of June 30, 2024 September 30, 2024, the holding company maintained a cash balance of \$15.8 million \$11.0 million. Management anticipates that the holding company has sufficient liquidity to meet its funding requirements for the foreseeable future. Both the holding company and the Bank are subject to legal and regulatory limitations on dividend payments, as outlined in Item 5(c) Dividends in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the SEC.

INTEREST RATE RISK MANAGEMENT

Market risk arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Company does not engage in the trading of financial instruments, nor does it have exposure to currency exchange rates. Our The Company's market risk exposure is primarily that of interest rate risk, and we have has established policies and procedures to monitor and limit our earnings and balance sheet exposure to changes in interest rates. The principal objective of interest rate risk management is to manage the financial components of the Company's balance sheet in a manner that will optimize the risk/reward equation for earnings and capital under a variety of interest rate scenarios.

To identify areas of potential exposure to interest rate changes, we utilize the Company utilizes commercially available modeling software to perform monthly earnings simulations and calculate the Company's market value of portfolio equity under varying interest rate scenarios. The model imports relevant information for the Company's financial instruments and

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deposit betas in the up cycles can range from 25 to 100% and from 0 to 50% in the down cycles depending on the deposit type. Deposit decay rate assumptions range from 5 to 10% and are based on historical averages. Prepayment speeds are based on three-year historical averages. Various rate scenarios consisting of key rate and yield curve projections are then applied in order to calculate the expected effect of a given interest rate change on interest income, interest expense, and the value of the Company's financial instruments. The rate projections can be shocked (an immediate and parallel change in all base rates, up or down), ramped (an incremental increase or decrease in rates over a specified time period), economic (based on current trends and econometric models) or stable (unchanged from current actual levels).

In addition to a stable rate scenario, which presumes that there are no changes in interest rates, **we the Company** typically **use uses** at least eight other interest rate scenarios in conducting **our** rolling 12-month net interest income simulations: upward shocks of 100, 200, 300, and 400 basis points, and downward shocks of 100, 200, and 300 basis points. Those scenarios may be supplemented, reduced in number, or otherwise adjusted as determined by Management to provide the most meaningful simulations considering economic conditions and expectations at the time. Pursuant to policy guidelines, **we the Company** generally **attempt attempts** to limit the projected decline in net interest income relative to the stable rate scenario to no more than 5% for a 100 basis point interest rate shock, 10% for a 200 basis point shock, 15% for a 300 basis point shock, and 20% for a 400 basis point shock.

The Company had the following estimated net interest income sensitivity profiles over one-year, without factoring in any potential negative impact on spreads resulting from competitive pressures or credit quality deterioration:

	June 30, 2024		June 30, 2023		September 30, 2024		September 30, 2023	
	%	\$	%	\$	%	\$	%	\$
Change	Change	Change	Change	Change	Change	Change	Change	Change
in Net	in Net	in Net	in Net	in Net	in Net	in Net	in Net	in Net
Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest
Income	Income	Income	Income	Income	Income	Income	Income	Income
Immediate change in Interest Rates (basis points)								
+400	10.0%	\$ 13,133	(6.1)%	\$ (7,322)	9.0%	\$ 12,006	(2.2)%	\$ (2,606)
+300	7.5%	\$ 9,865	(4.4)%	\$ (5,297)	6.9%	\$ 9,153	(1.6)%	\$ (1,880)
+200	5.0%	\$ 6,616	(2.0)%	\$ (2,428)	4.7%	\$ 6,295	(0.9)%	\$ (1,132)
+100	2.5%	\$ 3,349	(0.4)%	\$ (448)	2.5%	\$ 3,385	(0.4)%	\$ (520)
Base								
-100	(5.8)%	\$ (7,612)	(2.1)%	\$ (2,493)	(5.2)%	\$ (6,954)	(3.2)%	\$ (3,872)
-200	(11.8)%	\$ (15,512)	(2.9)%	\$ (3,542)	(10.4)%	\$ (13,795)	(5.0)%	\$ (6,062)
-300	(17.4)%	\$ (22,922)	(5.6)%	\$ (6,762)	(15.4)%	\$ (20,469)	(9.1)%	\$ (11,051)
-400	(21.9)%	\$ (28,798)	(8.2)%	\$ (9,866)	(18.4)%	\$ (24,467)	(13.4)%	\$ (16,227)

For The above table is for parallel interest rate shocks for all rate curves and represents an extreme scenario. Management utilizes this as a starting point for determining its overall interest rate risk strategy. Based on the interest rate shocks, for the period ending **June 30, 2024** **September 30, 2024**, management believes that the Company **was is more** asset sensitive **with net income increasing in** **than is was a rising rate scenario and decreasing in declining rate scenarios. year ago.**

The This shift from being liability sensitive at June 30, 2023 to asset sensitive at June 30, 2024, is due mostly to the decrease in the level of overnight borrowings both in Fed Funds purchased and overnight FHLB borrowings, a decrease in fixed rate bonds (which were sold to payoff higher cost borrowings that repriced daily), combined with an increase in mortgage warehouse line utilization which is very short-term.

The change in net interest income is similar for the up 100, 200, 300, and 400 basis point scenarios. If there were an immediate and sustained upward adjustment of 100 basis points in interest rates, all else being equal, net interest income over the next 12 months is projected to increase by ~~\$3.3 million~~ \$3.4 million, or 2.5%, relative to a stable interest rate scenario, with the favorable variance increasing as interest rates rise higher.

If there was an immediate downward adjustment of 100 basis points in interest rates ~~for all rate curves~~, net interest income would drop ~~\$7.6 million~~ \$7.0 million, or a negative variance of ~~5.8%~~ 5.2% over 12 months. The change in net interest income in the down 200 basis point scenario is a decrease of ~~\$15.5 million~~ \$13.8 million or ~~11.8%~~ 10.4%. As a significant portion of the Company's deposits remain in noninterest-bearing accounts or low-cost deposit accounts, in a down rate scenario, these rates would not change or only change slightly. However, floating rate earning assets (loans and deposits) would reprice downward more than the decline in floating rate liabilities. All interest rate downward shock scenarios are outside of internal policy guidelines, and all upward rate shock scenarios are within internal policy guidelines.

Although interest rate downward ~~parallel~~ shock scenarios are outside of internal policy guidelines, the starting point has also increased as a result of the aforementioned balance sheet restructuring. Management also models other ~~down interest~~ rate scenarios that do not assume a simultaneous shock of all rate curves including short-term and long-term curves. ~~Given One of~~

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these scenarios uses rate forecasts from a known economist over the next twenty-four months. Using this forecast of rates, net interest income models close to the base case scenario which indicates less sensitivity to expected interest rate changes. Management believes these alternative scenarios are an important part of interest rate risk management given the current inverted rate curve. In an inverted rate curve, shocking all rate curves tends to overstate the sensitivity to a change in rate. Management evaluates Thus, management has isolated the ~~part parts~~ of the rate curve that its balance sheet is most sensitive to rate declines and is currently looking at various balance sheet management strategies to manage the highest risks. strategically focused on those parts.

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In addition to the net interest income simulations shown above, ~~we run the Company runs~~ stress scenarios for the unconsolidated Bank where ~~we model it models~~ the possibility of no balance sheet growth, the potential runoff of "surge" core deposits which flowed into the Bank in the most recent economic cycle, and unfavorable movement in deposit rates relative to yields on earning assets (i.e., higher deposit betas). The most significant impact to net interest income in the net interest income simulations is the reduction or migration of low-cost deposits.

CAPITAL RESOURCES

The Company had total shareholders' equity of ~~\$350.0 million~~ \$358.7 million at ~~June 30, 2024~~ September 30, 2024, comprised of ~~\$107.9 million~~ \$108.4 million in common stock, \$5.3 million in additional paid-in capital, ~~\$247.8 million~~ \$273.6 million in retained earnings, and accumulated other comprehensive loss of ~~\$30.7 million~~ \$28.6 million. At the end of 2023, total shareholders' equity was \$338.1 million. The increase in equity

during the first half nine months of 2024 is due to net income of \$19.6 million \$30.2 million, offset by a \$6.7 million dividend \$10.2 million in dividends paid to shareholders, \$7.0 million \$8.3 million in share repurchases and a \$5.3 million \$7.4 million favorable swing in other comprehensive income/loss income due principally to changes in investment securities' fair value. The remaining difference is related to equity compensation recognized during the quarter. first nine months of 2024.

The Company approved a new share repurchase program in October 2023 that authorized 1,000,000 shares of common stock for repurchase beginning at the end of the expiration of the share repurchase program on October 31, 2023, and expiring on October 31, 2024. Under the 2023 Share Repurchase Program, there were 357,105 406,809 shares repurchased in the first half nine months of 2024 under a Rule 10b5-1 Plan. A new Share Repurchase Program was approved in October 2024 authorizing 1,000,000 shares of common stock for repurchase beginning at the end of the expiration of the share repurchase program on October 31, 2024, and expiring on October 31, 2025.

The Company uses a variety of measures to evaluate its capital adequacy, including the leverage ratio which is calculated separately for the Company and the Bank. Management reviews these capital measurements on a quarterly basis and takes appropriate action to help ensure that they meet or surpass established internal and external guidelines. As permitted by the regulators for financial institutions that are not deemed to be "advanced approaches" institutions, the Company has elected to opt out of the Basel III requirement to include accumulated other comprehensive income in risk-based capital. The following table sets forth the Company's regulatory capital ratios as of the dates indicated.

Regulatory Capital Ratios

			Minimum Requirement	Minimum Required	Minimum Requirement		
	June 30, 2024	December 31, 2023	to be Well Capitalized ⁽¹⁾	Community Bank Leverage Ratio ⁽²⁾	September 30, 2024	December 31, 2023	to be Well Capitalized ⁽¹⁾
Bank of the Sierra							
Tier 1 Capital to Adjusted Average Assets ("Leverage Ratio") ⁽³⁾	11.60 %	11.29 %	9.00 %	9.00 %	11.70 %	11.29 %	9.00 %
Sierra Bancorp							
Tier 1 Capital to Adjusted Average Assets ("Leverage Ratio") ⁽³⁾	10.78 %	10.32 %	9.00 %	N/A	10.78 %	10.32 %	9.00 %

- (1) The Company was subject to these minimum requirements under the regulatory framework for Prompt Corrective Action at December 31, 2019.
- (2) If the subsidiary bank's leverage ratio exceeds the minimum ratio under the community bank leverage ratio framework, it is deemed to be "well capitalized" under all other regulatory capital requirements. The Company may revert back to the regulatory framework for Prompt Corrective Action if the subsidiary bank's leverage ratio falls below the minimum under the community bank leverage ratio framework.
- (3) The Company has elected to phase in the impact of implementing CECL on regulatory capital over a three-year period.

The federal banking agencies provide a simplified measure of capital adequacy for qualifying community banking organizations by allowing such banking organizations to opt into the community bank leverage ratio framework. The Company's subsidiary has opted into the community bank leverage ratio framework. This means that if the Company's

subsidiary maintains a leverage ratio greater than 9% , it will be considered to have met the minimum capital requirements, the capital ratio requirements for the well capitalized category under the Prompt Corrective Action framework, and any other capital or leverage requirements to

which the qualifying banking organization is subject. A qualifying community banking organization with a leverage ratio of greater than 9% may opt into the community bank leverage ratio framework if has average consolidated total assets of less than \$10 billion, has off-balance-sheet exposures of 25% or less of total consolidated assets, and has total trading assets and trading liabilities of 5% or less of total consolidated assets. Further, the bank must not be an advance approaches banking organization.

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PART I – FINANCIAL INFORMATION

ITEM 3

QUANTITATIVE & QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures about market risk is included in Part I, Item 2 above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Market Risk Management."

PART I – FINANCIAL INFORMATION

Item 4

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end

of the period covered by this report (the "Evaluation Date") have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report was being prepared.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us the Company in the reports that we file are filed or submit submitted under the Exchange Act is accumulated and communicated to our Management, including our the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported within the time periods specified by the SEC.

Changes in Internal Controls

There were no significant changes in the Company's internal controls over financial reporting that occurred in the first six nine months of 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company and the Bank are defendants, from time to time, in legal proceedings in various points of the legal process arising from transactions conducted in the ordinary course of business. In the opinion of Management, in consultation with legal counsel, it is not probable that current legal actions will result in an unfavorable outcome

that has a material adverse effect on the Company's consolidated balance sheets, statements of income, statements of comprehensive income, or statements of cash flows. In the event that such legal action results in an unfavorable outcome, the resulting liability could

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have a material adverse effect on the Company's balance sheet, income statement, comprehensive income/(loss), or cash flows.

ITEM 1A: RISK FACTORS

There were no material changes from the risk factors disclosed in the Company's Form 10-K for the fiscal year ended December 31, 2023.

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

(c) Stock Repurchases

In October 2023, the Board approved the 2023 Share Repurchase Plan by authorizing 1,000,000 shares of common stock for repurchase and expires on October 31, 2024. A new Share Repurchase Program was approved by the Board in October 2024, authorizing 1,000,000 shares of common stock for repurchase beginning at the end of the expiration of the share repurchase program on October 31, 2024, and expiring on October 31, 2025.

Stock Repurchases				
Period	Total Number of Shares Purchased	Average Price Paid per Share	Maximum Number (or Approximate Dollar Value) of Shares	
			Total Number of Shares Purchased as Part of a Publicly Announced Plan	That May Yet Be Purchased Under the Plan at the End of the Period
April 1, 2024 - April 30, 2024	48,939	\$ 19.38	48,939	772,124
May 1, 2024 - May 31, 2024	53,227	\$ 21.76	53,227	718,897
June 1, 2024 - June 30, 2024	76,002	\$ 20.56	76,002	642,895
Total	178,168	\$ 20.59	178,168	

Stock Repurchases				
				Maximum Number (or Approximate Dollar Value) of Shares
			Total Number of Shares Purchased as Part of a Publicly Announced Plan	That May Yet Be Purchased Under the Plan at the End of the Period
Period	Total Number of Shares Purchased	Average Price Paid per Share		
July 1, 2024 - July 31, 2024	23,827	23.01	23,827	619,068
August 1, 2024 - August 31, 2024	25,877	26.61	25,877	593,191
September 1, 2024 - September 30, 2024	—	—	—	593,191
Total	49,704	\$ 24.89	49,704	

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable

ITEM 5: OTHER INFORMATION

Not applicable

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ITEM 6: EXHIBITS

Exhibit #	Description
3.1	Restated Articles of Incorporation of Sierra Bancorp.(1)
3.2	Amended and Restated By-laws of Sierra Bancorp.(2)
4.1	Description of Securities.(3)
4.2	3.25% Fixed to Floating Subordinated Debt issued September 24, 2021.(4)
10.1	Salary Continuation Agreement for James C. Holly.(5)*
10.2	Split Dollar Agreement and Amendment thereto for James C. Holly.(6)*
10.3	Director Retirement and Split dollar Agreements Effective October 1, 2002, for Albert Berra , Morris Tharp , and Gordon Woods (6)*
10.4	401 Plus Non-Qualified Deferred Compensation Plan.(6)*

10.5	Indenture dated as of March 17, 2004, between U.S. Bank N.A., as Trustee, and Sierra Bancorp, as Issuer (7)
10.6	Amended and Restated Declaration of Trust of Sierra Statutory Trust II, dated as of March 17, 2004 (7)
10.7	Indenture dated as of June 15, 2006, between Wilmington Trust Co., as Trustee, and Sierra Bancorp, as Issuer (8)
10.8	Amended and Restated Declaration of Trust of Sierra Capital Trust III, dated as of June 15, 2006 (8)
10.9	2007 Stock Incentive Plan (9)
10.10	Sample Retirement Agreement Entered into with Each Non-Employee Director Effective January 1, 2007 (10)*
10.11	Salary Continuation Agreement for Kevin J. McPhaill (10)*
10.14	First Amendment to the Salary Continuation Agreement for Kevin J. McPhaill (11)*
10.15	Indenture dated as of September 20, 2007, between Wilmington Trust Co., as Trustee, and Coast Bancorp, as Issuer (12)
10.16	Amended and Restated Declaration of Trust of Coast Bancorp Statutory Trust II, dated as of September 20, 2007 (12)
10.17	First Supplemental Indenture dated as of July 8, 2016, between Wilmington Trust Co. as Trustee, Sierra Bancorp as the "Successor Company", and Coast Bancorp (12)
10.18	2017 Stock Incentive Plan (13)*
10.19	Employment agreements dated as of December 27, 2018, for Kevin McPhaill , CEO and Michael Olague , Chief Banking Officer (14)*
10.21	Employment agreement dated as of November 15, 2019, for Christopher Treece, Chief Financial Officer (15)*
10.22	Employment agreement dated as of January 17, 2020, for Jennifer Johnson, Chief Administrative Officer (16)*
10.23	Employment agreement dated as of December 14, 2020, for Hugh Boyle, Chief Credit Officer (17) (16)*
10.24	Form Indemnification Agreement dated as of January 28, 2021, for Directors and Executive Officers (18) (17)*
10.25	Split Dollar Master Agreement and Election Form Effective October 1, 2002, for Kevin McPhaill (19) (18)*
10.26	Split Dollar Agreement for Albert Berra (20) (19)*
10.27	10b5-1 Plan for Susan Abundis (22) (21)
10.28	2023 Equity Based Compensation Plan (21) (20)*
10.29	Employment agreement dated as of August 25, 2023, for Natalia Coen, Chief Risk Officer (23) (22)*
31.1	Certification of Chief Executive Officer (Section 302 Certification)
31.2	Certification of Chief Financial Officer (Section 302 Certification)
32	Certification of Periodic Financial Report (Section 906 Certification)
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

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- (1) Filed as Exhibit 3.1 to the Form 10-Q filed with the SEC on August 7, 2009, and incorporated herein by reference.
- (2) Filed as an Exhibit to the Form 8-K filed with the SEC on May 25, 2022, and incorporated herein by reference.
- (3) Filed as an Exhibit to the Form 10-K filed with the SEC on March 12, 2020, and incorporated herein by reference.
- (4) Filed as an Exhibit to the Form 8-K filed with the SEC on September 24, 2021, and incorporated herein by reference.
- (5) Filed as Exhibit 10.7 to the Form 10-Q filed with the SEC on May 15, 2003, and incorporated herein by reference.
- (6) Filed as Exhibits 10.12, 10.18 through 10.20, and 10.22 to the Form 10-K filed with the SEC on March 15, 2006, and incorporated herein by reference.
- (7) Filed as Exhibits 10.9 and 10.10 to the Form 10-Q filed with the SEC on May 14, 2004, and incorporated herein by reference.
- (8) Filed as Exhibits 10.26 and 10.27 to the Form 10-Q filed with the SEC on August 9, 2006, and incorporated herein by reference.

- (9) Filed as Exhibit 10.20 to the Form 10-K filed with the SEC on March 15, 2007, and incorporated herein by reference.
- (10) Filed as Exhibits 10.1 through 10.2 to the Form 8-K filed with the SEC on January 8, 2007, and incorporated herein by reference.
- (11) Filed as Exhibit 10.24 to the Form 10-Q filed with the SEC on May 7, 2015, and incorporated herein by reference.
- (12) Filed as Exhibits 10.1 through 10.3 to the Form 8-K filed with the SEC on July 11, 2016, and incorporated herein by reference.
- (13) Filed as Exhibit 10.1 to the Form 8-K filed with the SEC on March 17, 2017, and incorporated herein by reference.
- (14) Filed as Exhibits 99.1 and 99.4 to the Form 8-K filed with the SEC on December 28, 2018, and incorporated by reference.
- (15) Filed as Exhibit 99.1 to the Form 8-K filed with the SEC on November 11, 2019, and incorporated by reference.
- (16) Filed as Exhibit 99.1 to the Form 8-K filed with the SEC on January 21, 2020, and incorporated by reference.
- (17) Filed as Exhibit 10.1 to the Form 8-K filed with the SEC on December 09, 2020, and incorporated herein by reference.
- (18) Filed as Exhibit 10.1 to the Form 8-K filed with the SEC on January 29, 2021, and incorporated herein by reference.
- (19) Filed as Exhibit 10.25 to the form 10-Q filed with the SEC on November 3, 2022, and incorporated herein by reference.
- (20) Filed as Exhibit 10.26 to the form 10-Q filed with the SEC on May 5, 2023, and incorporated herein by reference.
- (21) Filed as Exhibit 4.1 to the form S-8 filed with the SEC on June 15, 2023, and incorporated herein by reference.
- (22) Filed as Exhibit 10.27 to the form 10-Q filed with the SEC on August 3, 2023, and incorporated herein by reference.
- (23) Filed as Exhibit 10.1 to the form 8-K filed with the SEC on August 31, 2023, and incorporated herein by reference.

*Indicates management contract or compensatory plan or arrangement.

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SIGNATURES

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

August 5, November 7, 2024	Is/ Kevin J. McPhaill
Date	SIERRA BANCORP
	Kevin J. McPhaill
	President & Chief Executive Officer
	(Principal Executive Officer)
August 5, November 7, 2024	Is/ Christopher G. Treece
Date	SIERRA BANCORP
	Christopher G. Treece
	Chief Financial Officer
August 5 November 7 2024	Is/ Cindy L. Dabney
Date	SIERRA BANCORP
	Cindy L. Dabney
	Principal Accounting Officer

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Exhibit 31.1 – Certification of Chief Executive Officer (Section 302 Certification)

I, Kevin J. McPhaill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sierra Bancorp ("Registrant");
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves Management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 5, 2024 November 7, 2024

/s/ Kevin J. McPhaill

Kevin J. McPhaill

President &

Chief Executive Officer

Exhibit 31.2 – Certification of Chief Financial Officer (Section 302 Certification)

I, Christopher G. Treece, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sierra Bancorp ("Registrant");

2. Based on my knowledge, this quarterly 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 quarterly report;

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

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

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

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

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

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

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:

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

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

Date: August 5, 2024 November 7, 2024

/s/ Christopher G. Treece

Christopher G. Treece

Chief Financial Officer

Exhibit 32 – Certification of Periodic Financial Report

Kevin J. McPhaill and Christopher G. Treece hereby certify as follows:

1. They are the Chief Executive Officer and Chief Financial Officer, respectively, of Sierra Bancorp.

2. The Form 10-Q of Sierra Bancorp for the Quarter ended June 30, 2024 September 30, 2024, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and the information contained in the report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Sierra Bancorp.

August 5, November 7,
2024

/s/ Kevin J. McPhaill

Date

Kevin J. McPhaill
President &
Chief Executive Officer

August 5, November 7,
2024

Date

Is/ Christopher G. Treece

Christopher G. Treece
Chief Financial Officer

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