

REFINITIV

DELTA REPORT

10-Q

HMNF - HMN FINANCIAL INC

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

The following comparison report has been automatically generated

TOTAL DELTAS	1510
CHANGES	214
DELETIONS	718
ADDITIONS	578

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

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

OR

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

For the transition period from to

Commission File Number **0-24100**
HMN FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	41-1777397
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1016 Civic Center Drive N.W., Rochester, MN	55901
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(507) 535-1200

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	HMNF	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒
Smaller reporting company ☐ Emerging growth company ☐

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

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

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

Class	Outstanding at October 27, 2023 April 29, 2024
Common stock, \$0.01 par value	4,487,362 4,464,952

HMN FINANCIAL, INC.
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PART I – FINANCIAL INFORMATION

Item 1 : Financial Statements

HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30,	December 31,	March 31,	December 31,
(Dollars in thousands)	2023	2022	2024	2023
	(unaudited)		(unaudited)	
Assets				
Cash and cash equivalents	\$ 46,676	36,259	\$ 50,230	11,151
Securities available for sale:				
Mortgage-backed and related securities (amortized cost \$188,199 and \$216,621)	163,849	192,688		
Other marketable securities (amortized cost \$55,632 and \$55,698)	54,318	53,331		
Mortgage-backed and related securities (amortized cost \$170,784 and \$179,366)			152,759	161,414
Other marketable securities (amortized cost \$54,221 and \$54,112)			53,850	53,680
Total securities available for sale	218,167	246,019	206,609	215,094
Loans held for sale	1,898	1,314	4,146	1,006
Loans receivable, net	850,760	777,078	856,560	845,692
Accrued interest receivable	3,868	3,003	3,674	3,553
Mortgage servicing rights, net	2,780	2,986	2,631	2,709
Premises and equipment, net	16,128	16,492	15,775	15,995
Goodwill	802	802	802	802
Prepaid expenses and other assets	4,067	3,902	3,614	3,962
Deferred tax asset, net	9,025	8,347	7,174	7,171
Total assets	\$ 1,154,171	1,096,202	\$ 1,151,215	1,107,135
Liabilities and Stockholders' Equity				
Deposits	\$ 1,043,588	981,926	\$ 1,030,918	976,793
Federal Home Loan Bank advances and other borrowings			0	13,200
Accrued interest payable	2,377	298	3,730	2,399
Customer escrows	4,649	10,122	3,425	2,246
Accrued expenses and other liabilities	1,787	6,520	4,318	4,790
Total liabilities	1,052,401	998,866	1,042,391	999,428
Commitments and contingencies				
Stockholders' equity:				
Serial-preferred stock (\$.01 par value): authorized 500,000 shares; issued 0	0	0		
Common stock (\$.01 par value): authorized 16,000,000 shares; issued 9,128,662 outstanding 4,487,362 and 4,480,976	91	91		
Serial-preferred stock (\$.01 par value): authorized 500,000 shares; issued 0			0	0
Common stock (\$.01 par value): authorized 16,000,000 shares; issued 9,128,662 outstanding 4,462,555 and 4,457,905			91	91
Additional paid-in capital	41,127	41,013	41,232	41,235
Retained earnings, subject to certain restrictions	141,175	138,409	143,248	142,278
Accumulated other comprehensive loss	(18,498)	(19,761)	(13,199)	(13,191)
Unearned employee stock ownership plan shares	(918)	(1,063)	(821)	(870)
Treasury stock, at cost 4,641,300 and 4,647,686 shares	(61,207)	(61,353)		
Treasury stock, at cost 4,666,107 and 4,670,757 shares			(61,727)	(61,836)
Total stockholders' equity	101,770	97,336	108,824	107,707
Total liabilities and stockholders' equity	\$ 1,154,171	1,096,202	\$ 1,151,215	1,107,135

See accompanying notes to consolidated financial statements (unaudited).

HMN FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2023	2022	2023	2022
Interest income:				
Loans receivable	\$ 10,549	7,473	29,171	21,389
Securities available for sale:				
Mortgage-backed and related	566	691	1,818	2,126
Other marketable	269	120	612	289
Other	143	347	336	449
Total interest income	<u>11,527</u>	<u>8,631</u>	<u>31,937</u>	<u>24,253</u>
Interest expense:				
Deposits	3,614	340	7,966	910
Customer escrows	4	0	59	0
Advances and other borrowings	106	0	318	5
Total interest expense	<u>3,724</u>	<u>340</u>	<u>8,343</u>	<u>915</u>
Net interest income	7,803	8,291	23,594	23,338
Provision for credit losses (1)	<u>318</u>	<u>579</u>	<u>566</u>	<u>941</u>
Net interest income after provision for credit losses	<u>7,485</u>	<u>7,712</u>	<u>23,028</u>	<u>22,397</u>
Non-interest income:				
Fees and service charges	857	821	2,495	2,397
Loan servicing fees	390	406	1,181	1,188
Gain on sales of loans	463	414	1,092	2,096
Other	474	413	1,318	1,264
Total non-interest income	<u>2,184</u>	<u>2,054</u>	<u>6,086</u>	<u>6,945</u>
Non-interest expense:				
Compensation and benefits	4,455	4,355	13,719	12,805
Occupancy and equipment	893	918	2,757	2,865
Data processing	566	513	1,616	1,443
Professional services	245	306	774	1,095
Other	1,122	1,082	3,565	3,201
Total non-interest expense	<u>7,281</u>	<u>7,174</u>	<u>22,431</u>	<u>21,409</u>
Income before income tax expense	2,388	2,592	6,683	7,933
Income tax expense	<u>890</u>	<u>761</u>	<u>2,130</u>	<u>2,326</u>
Net income	<u>1,498</u>	<u>1,831</u>	<u>4,553</u>	<u>5,607</u>
Other comprehensive income (loss), net of tax	<u>(1,688)</u>	<u>(7,189)</u>	<u>1,263</u>	<u>(23,458)</u>
Comprehensive income (loss) available to common stockholders	<u>\$ (190)</u>	<u>(5,358)</u>	<u>5,816</u>	<u>(17,851)</u>
Basic earnings per share	<u>\$ 0.34</u>	<u>0.42</u>	<u>1.05</u>	<u>1.28</u>
Diluted earnings per share	<u>\$ 0.34</u>	<u>0.42</u>	<u>1.04</u>	<u>1.27</u>

(1) The Company adopted Accounting Standards Update 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior accounting standard.

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2024	2023
Interest income:		
Loans receivable	\$ 10,686	9,003
Securities available for sale:		
Mortgage-backed and related	514	652
Other marketable	409	143
Other	390	115
Total interest income	11,999	9,913
Interest expense:		
Deposits	4,740	1,803
Customer escrows	0	32
Advances and other borrowings	3	15
Total interest expense	4,743	1,850
Net interest income	7,256	8,063
Provision for credit losses	(209)	(8)
Net interest income after provision for credit losses	7,465	8,071
Non-interest income:		
Fees and service charges	732	807
Loan servicing fees	388	400
Gain on sales of loans	294	295
Other	493	426
Total non-interest income	1,907	1,928
Non-interest expense:		
Compensation and benefits	4,697	4,805
Occupancy and equipment	852	950
Data processing	535	505
Professional services	321	237
Other	1,146	1,196
Total non-interest expense	7,551	7,693
Income before income tax expense	1,821	2,306
Income tax expense	503	672
Net income	1,318	1,634
Other comprehensive income (loss), net of tax	(8)	2,246
Comprehensive income available to common shareholders	\$ 1,310	3,880
Basic earnings per share	\$ 0.30	0.38
Diluted earnings per share	\$ 0.30	0.37

See accompanying notes to consolidated financial statements (unaudited).

HMN FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Three and Nine Months Ended September 30, 2023 and 2022

(unaudited)

	Common	Additional	Retained	Accumulated	Unearned		Total
	Stock	Paid-In	Earnings	Other	Employee		Stock-
(Dollars in thousands)	Stock	Capital	Earnings	Comprehensive	Ownership	Treasury	Holders'
				Loss	Plan	Stock	Equity
Balance, December 31, 2023	\$ 91	41,235	142,278	(13,191)	(870)	(61,836)	107,707
Net income			1,318				1,318
Other comprehensive loss				(8)			(8)
Dividends paid to stockholders (\$0.08 per share)			(348)				(348)
Restricted stock awards		(110)				110	0
Stock awards withheld for tax withholding						(1)	(1)
Amortization of restricted stock awards		49					49
Earned employee stock ownership plan shares		58			49		107
Balance, March 31, 2024	\$ 91	41,232	143,248	(13,199)	(821)	(61,727)	108,824

	Common	Additional	Retained	Accumulated	Unearned		Total
	Stock	Paid-In	Earnings	Other	Employee		Stockholders'
(Dollars in thousands)	Stock	Capital	Earnings	Comprehensive	Ownership	Treasury	Equity
				Loss	Plan Shares	Stock	
Balance, June 30, 2023	\$ 91	41,019	140,025	(16,810)	(966)	(61,207)	102,152
Net income			1,498				1,498
Other comprehensive income (loss)				(1,688)			(1,688)
Dividends paid to stockholders-\$0.08 per share			(348)				(348)
Amortization of restricted stock awards		57					57
Earned employee stock ownership plan shares		51			48		99
Balance, September 30, 2023	\$ 91	41,127	141,175	(18,498)	(918)	(61,207)	101,770
Balance, December 31, 2022	\$ 91	41,013	138,409	(19,761)	(1,063)	(61,353)	97,336
Net income			4,553				4,553
Other comprehensive income (loss)				1,263			1,263
Adoption of ASU 2016-13 (see Note 3)			(830)				(830)
Dividends paid to stockholders-\$0.22 per share			(957)				(957)
Restricted stock awards		(210)				210	0
Stock awards withheld for tax withholding						(64)	(64)
Amortization of restricted stock awards		168					168
Earned employee stock ownership plan shares		156			145		301
Balance, September 30, 2023	\$ 91	41,127	141,175	(18,498)	(918)	(61,207)	101,770

				Accumulated	Unearned		
		Additional		Other	Employee		Total
	Common	Paid-In	Retained	Comprehensive	Stock	Treasury	Stockholders'
(Dollars in thousands)	Stock	Capital	Earnings	Loss	Ownership Plan Shares	Stock	Equity
Balance, June 30, 2022	\$ 91	40,775	134,661	(17,852)	(1,159)	(60,668)	95,848
Net income			1,831				1,831
Other comprehensive loss				(7,189)			(7,189)
Dividends paid to stockholders-\$0.06 per share			(262)				(262)
Stock repurchases						(685)	(685)
Amortization of restricted stock awards		55					55
Earned employee stock ownership plan shares		64			48		112
Balance, September 30, 2022	\$ 91	40,894	136,230	(25,041)	(1,111)	(61,353)	89,710
Balance, December 31, 2021	\$ 91	40,740	131,413	(1,583)	(1,256)	(59,374)	110,031
Net income			5,607				5,607
Other comprehensive loss				(23,458)			(23,458)
Dividends paid to stockholders-\$0.18 per share			(790)				(790)
Stock repurchases						(2,134)	(2,134)
Restricted stock awards		(225)				225	0
Stock awards withheld for tax withholding						(70)	(70)
Amortization of restricted stock awards		172					172
Earned employee stock ownership plan shares		207			145		352
Balance, September 30, 2022	\$ 91	40,894	136,230	(25,041)	(1,111)	(61,353)	89,710

				Accumulated	Unearned		
		Additional		Other	Employee		Total
	Common	Paid-In	Retained	Comprehensive	Stock	Treasury	Stock-
(Dollars in thousands)	Stock	Capital	Earnings	Loss	Ownership Plan Shares	Stock	Holders' Equity
Balance, December 31, 2022	\$ 91	41,013	138,409	(19,761)	(1,063)	(61,353)	97,336
Net income			1,634				1,634
Other comprehensive income				2,246			2,246
Adoption of ASU 2016-13			(830)				(830)
Dividends paid to stockholders (\$0.06 per share)			(261)				(261)
Restricted stock awards		(150)				150	0
Stock awards withheld for tax withholding						(64)	(64)
Amortization of restricted stock awards		54					54
Earned employee stock ownership plan shares		58			49		107
Balance, March 31, 2023	\$ 91	40,975	138,952	(17,515)	(1,014)	(61,267)	100,222

See accompanying notes to consolidated financial statements (unaudited).

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HMN FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
<i>(Dollars in thousands)</i>				
Cash flows from operating activities:				
Net income	\$ 4,553	5,607	\$ 1,318	1,634
Adjustments to reconcile net income to cash provided by operating activities:				
Adjustments to reconcile net income to cash provided (used) by operating activities:				
Provision for credit losses	566	941	(209)	(8)
Depreciation	843	924	271	282
Amortization of premiums, net	600	783	72	194
Amortization of deferred loan fees	(116)	(406)	(25)	(60)
Amortization of core deposit intangible	0	10		
Amortization of mortgage servicing rights and servicing costs	623	695	208	199
Capitalized mortgage servicing rights	(417)	(532)	(130)	(91)
Deferred income tax expense	275	550		
(Gains) losses recognized on equity securities, net	(83)	50		
Gains recognized on equity securities, net			(11)	(41)
Gains on sale of premises and equipment	(19)	(6)	0	(1)
Gain on sale of real estate	(17)	(113)		
Gain on sales of loans	(1,092)	(2,096)	(294)	(295)
Proceeds from sales of loans held for sale	49,361	81,275		
Proceeds from sale of loans held for sale			15,173	11,300
Disbursements on loans held for sale	(45,140)	(61,820)	(15,552)	(9,718)
Amortization of restricted stock awards	168	172	49	54
Amortization of unearned Employee Stock Ownership Plan shares	145	145	49	49
Earned Employee Stock Ownership Plan shares priced above original cost	156	207	58	58
Increase in accrued interest receivable	(865)	(530)	(121)	(196)
Increase (decrease) in accrued interest payable	2,079	(10)		
Increase in accrued interest payable			1,331	751
(Increase) decrease in other assets	(33)	178	(252)	283
(Decrease) increase in other liabilities	(4,772)	506		
Decrease in other liabilities			(462)	(5,399)
Other, net	(1)	4	2	0
Net cash provided by operating activities	6,814	26,534		
Net cash provided (used) by operating activities			1,475	(1,005)
Cash flows from investing activities:				
Principal collected on securities available for sale	27,818	35,032	8,400	8,976
Proceeds collected on maturities of securities available for sale	10,000	5,000	15,000	0
Purchases of securities available for sale	(9,931)	(35,043)	(15,000)	0
Purchase of Federal Home Loan Bank stock	(7,398)	(1,743)	(7)	(1,546)
Redemption of Federal Home Loan Bank stock	7,365	1,552	594	1,421
Proceeds from sales of real estate	237	402		
Net increase in loans receivable	(79,197)	(102,021)	(13,086)	(10,437)

Proceeds from sale of premises	61	9	0	35
Purchases of premises and equipment	(520)	(306)	(52)	(291)
Net cash used by investing activities	(51,565)	(97,118)	(4,151)	(1,842)
Cash flows from financing activities:				
Increase (decrease) in deposits	61,662	(3,109)	54,125	(23,608)
Purchase of treasury stock	0	(2,134)		
Stock awards withheld for tax withholding	(64)	(70)	(1)	(64)
Dividends to stockholders	(957)	(790)	(348)	(261)
Proceeds from borrowings	180,120	31,000	0	37,820
Repayment of borrowings	(180,120)	(31,000)	(13,200)	(35,520)
(Decrease) increase in customer escrows	(5,473)	1,189		
Increase (decrease) in customer escrows			1,179	(1,659)
Net cash provided (used) by financing activities	55,168	(4,914)	41,755	(23,292)
Increase (decrease) in cash and cash equivalents	10,417	(75,498)	39,079	(26,139)
Cash and cash equivalents, beginning of period	36,259	94,143	11,151	36,259
Cash and cash equivalents, end of period	\$ 46,676	18,645	\$ 50,230	10,120
Supplemental cash flow disclosures:				
Cash paid for interest	\$ 6,264	925	\$ 3,411	1,099
Cash paid for income taxes	2,114	2,399	813	0
Supplemental noncash flow disclosures:				
Loans transferred to loans held for sale	3,729	13,708	2,452	555
Transfer of loans to real estate	220	0		
Right to use assets obtained in exchange for lease liabilities	0	137		

See accompanying notes to consolidated financial statements (unaudited).

HMN FINANCIAL, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(unaudited)

(1) Description of the Business and Summary of Significant Accounting Policies

HMN Financial, Inc. (HMN or the Company) is a stock savings bank holding company that owns 100 percent of Home Federal Savings Bank (the Bank). The Bank has a community banking philosophy and operates retail banking and loan production facilities in Minnesota, Iowa and Wisconsin. The Bank has two wholly owned subsidiaries, Osterud Insurance Agency, Inc. (OIA), which does business as Home Federal Investment Services and offers financial planning products and services, and HFSB Property Holdings, LLC (HPH), which is currently inactive, but has acted in the past as an intermediary for the Bank in holding and operating certain foreclosed properties.

The consolidated financial statements included herein are for HMN, the Bank, OIA and HPH. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* on January 1, 2023, which changed the methodology used to estimate the allowance for credit losses on various types of financial instruments including loans, investment securities, and off-balance sheet credit exposures. See Note 3 - "New Accounting Standards", Note 7 - "Securities Available for Sale", and Note 9 - "Allowance for Credit Losses and Credit Quality Information" for more information on the changes in certain policies as a result of the adoption of ASU 2016-13.

The Company adopted ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this ASU eliminate the guidance for troubled debt restructurings (TDRs) by creditors in Subtopic 310-40, *Receivables-Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancing and restructures by creditors when a borrower is experiencing financial difficulty. See Note 3 - "New Accounting Standards" and Note 9 - "Allowance for Credit Losses and Credit Quality Information" for more information on the changes in certain policies as a result of the adoption of ASU 2022-02.

(2) Basis of Preparation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of the consolidated balance sheets, consolidated statements of comprehensive income, (loss), consolidated statements of stockholders'

equity and consolidated statements of cash flows in conformity with U.S. Generally Accepted Accounting Principles (GAAP). However, all normal recurring adjustments which are, in the opinion of management, necessary for the fair presentation of the interim financial statements have been included.

The unaudited consolidated financial statements presented in this report should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2022, 2023, included in the Company's Form 10-K -K/A filed with the Securities and Exchange Commission (SEC) on March 3, 2023, 19, 2024. The results of operations for the three and nine-month periods month period ended September 30, 2023 March 31, 2024 are not necessarily indicative of the results which may be expected for the entire year.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q were issued.

(3) New Accounting Standards

In March 2022, December 2023, the Financial Accounting Standards Board (FASB) issued ASU Accounting Standards Update (ASU) 2022-02, 09, Financial Instruments-Credit Losses Income Taxes (Topic 326 740): Troubled Debt Restructurings and Vintage Improvements to Income Tax Disclosures. The amendments in the ASU address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this ASU eliminate the guidance for TDRs apply to all entities that are subject to Topic 740, Income Taxes with certain disclosures only required by creditors in Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancing and restructures by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan, public business entities. For public business entities, such as HMN, the Company, the amendments in this ASU require that an entity disclose current period gross write-offs by year of origination are effective for financing receivables and net investments in leases within the scope of Subtopic annual periods beginning after 326 December 15, 2024, -20, Financial Instruments-Credit Losses-Measured at Amortized Cost with early adoption permitted. Management is currently in the vintage disclosures process of reviewing how the Company's income tax disclosure will be impacted by the additional guidance when this ASU is required by paragraph to be adopted on 326 December 31, 2025.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 50 280-6): Improvements to Reportable Segment Disclosures. The amendments in the ASU became effective for HMN when ASU 2016-13 was adopted on January 1, 2023 and the required disclosures were applied prospectively. See Note 9 -"Allowance for Credit Losses and Credit Quality Information" address investor requests for additional, disclosures for charge offs and loan modifications to borrowers experiencing financial difficulties in the first nine months of 2023.

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In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. more detailed information about a reportable segment's expenses. The amendments in this the ASU affect apply to all public entities, such as the Company, that measure credit losses on financial instruments including loans, debt securities, trade receivables, net investments are required to report segment information in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial asset that has a contractual right to receive cash that is accordance with Topic not 280, specifically excluded. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology that was previously required by GAAP with a methodology that reflects expected credit losses that requires consideration of a broader range of reasonable and supportable information to estimate credit losses. Segment Reporting. The amendments in this the ASU will affect entities to varying degrees depending on do not change the credit quality of the assets held by the current disclosure requirements or how a public entity the duration of the assets held, and how the entity applied the previously used incurred loss methodology. identifies its operating segments. The amendments in this the ASU for public business entities that are filers with the Securities and Exchange Commission (SEC), were originally effective for fiscal years beginning after December 15, 2019, 2023, including and interim periods within those annual periods. On with fiscal years beginning after November 26, 2019, December 15, 2024, with early adoption permitted. Management is currently in the FASB issued process of reviewing how the Company's segment reporting will be impacted by the additional guidance when this ASU is required to be adopted on 2019 December 31, 2024. -

(11.4) Fair Value Measurements

ASC 820, Codification Improvements to Topic 326, Financial Instruments Fair Value Measurements- Credit Losses, which delayed, establishes a framework for measuring the implementation date fair value of ASU 2016-13 for SEC smaller reporting companies, such as HMN, from the first quarter of 2020 to the first quarter of 2023. Amendments should be applied assets and liabilities using a modified retrospective transition method by means hierarchy system consisting of a cumulative-effect adjustment to equity as of three levels, based on the beginning of the period markets in which the guidance assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1- Valuation is adopted. based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.

Level 2- Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which significant assumptions are observable in the market.

Level 3- Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table summarizes the assets and liabilities of the Company for which fair values are determined on a recurring basis as of March 31, 2024 and December 31, 2023.

(Dollars in thousands)	Carrying Value at March 31, 2024			
	Total	Level 1	Level 2	Level 3
Securities available for sale	\$ 206,609	0	206,609	
Equity securities	394	0	394	
Commitments to extend credit	(18)	0	(18)	
Total	<u>\$ 206,985</u>	<u>0</u>	<u>206,985</u>	
(Dollars in thousands)	Carrying Value at December 31, 2023			
	Total	Level 1	Level 2	Level 3
Securities available for sale	\$ 215,094	0	215,094	
Equity securities	382	0	382	
Commitments to extend credit	7	0	7	
Total	<u>\$ 215,483</u>	<u>0</u>	<u>215,483</u>	

The Company **adopted this ASU** may also be required, from time to time, to measure certain other financial assets at fair value on **January 1, 2023**, a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write-downs of individual assets. The **transition** following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at March 31, 2024 and December 31, 2023.

(Dollars in thousands)	Carrying Value at March 31, 2024				Three Months Ended March 31, 2024 Total Gains
	Total	Level 1	Level 2	Level 3	
Loans held for sale	\$ 4,146	0	4,146	0	10
Mortgage servicing rights, net	2,631	0	0	2,631	0
Collateral dependent loans	2,841	0	2,841	0	8
Total	<u>\$ 9,618</u>	<u>0</u>	<u>6,987</u>	<u>2,631</u>	<u>18</u>
(Dollars in thousands)	Carrying Value at December 31, 2023				Year Ended December 31, 2023 Total Losses
	Total	Level 1	Level 2	Level 3	
Loans held for sale	\$ 1,006	0	1,006	0	(26)
Mortgage servicing rights, net	2,709	0	0	2,709	0
Collateral dependent loans	3,856	0	3,856	0	(287)
Total	<u>\$ 7,571</u>	<u>0</u>	<u>4,862</u>	<u>0</u>	<u>(313)</u>

(5) Fair Value of Financial Instruments

ASC 825, *Disclosures about Fair Values of Financial Instruments* requires interim reporting period disclosure of the estimated fair values of the Company's financial instruments, including assets, liabilities and off-balance sheet items for which it is practicable to estimate fair value. The fair value estimates are made as of March 31, 2024 and December 31, 2023 based upon relevant market information, if available, and upon the characteristics of the financial instruments themselves. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based upon judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors.

The estimated fair value of the Company's financial instruments as of March 31, 2024 and December 31, 2023 are shown below. There is an explanation of the methods and assumptions used to estimate the fair value of each class of financial instruments following the table.

(Dollars in thousands)	March 31, 2024						December 31, 2023		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy			Contract Amount	Carrying Amount	Estimated Fair Value	Contract Amount
			Level 1	Level 2	Level 3				
Financial assets:									
Cash and cash equivalents	\$ 50,230	50,230	50,230				11,151	11,151	

Securities available for sale	206,609	206,609	206,609	215,094	215,094
Equity securities	394	394	394	382	382
Loans held for sale	4,146	4,146	4,146	1,006	1,006
Loans receivable, net	856,560	792,017	792,017	845,692	778,952
Federal Home Loan Bank stock	665	665	665	1,252	1,252
Accrued interest receivable	3,674	3,674	3,674	3,553	3,553
Mortgage servicing assets	2,631	6,536	6,536	2,709	6,539
Financial liabilities:					
Deposits	1,030,918	1,029,689	1,029,689	976,793	975,963
FHLB advances and other borrowings	0	0	0	13,200	13,200
Accrued interest payable	3,730	3,730	3,730	2,399	2,399
Off-balance sheet financial instruments:					
Commitments to extend credit	(18)	(18)	159,183	7	7
Commitments to sell loans	(7)	(7)	9,376	(17)	(17)
					167,447
					3,078

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates their fair value.

Securities Available for Sale

The fair values of securities were based upon quoted market prices for similar securities. The fair values measurements are subject to independent verification by another pricing source on a quarterly basis to review for reasonableness.

Equity Securities

The fair values of equity securities were based upon quoted market prices for similar securities.

Loans Held for Sale

The fair values of loans held for sale were based upon quoted market prices for loans with similar interest rates and terms to maturity.

Loans Receivable

The fair value of the loan portfolio, with the exception of the adjustable rate portfolio, was calculated by discounting the scheduled cash flows through the estimated maturity using anticipated prepayment speeds and using discount rates that reflect the credit and interest rate risk inherent in each loan portfolio. The fair value of the adjustable loan portfolio, with the exception of those loans that adjust on a daily basis, is estimated by grouping the loans with similar characteristics and comparing the characteristics of each group to the new ASU resulted prices quoted for similar types of loans in the secondary market.

Federal Home Loan Bank (FHLB) Stock

The carrying amount of FHLB stock approximates its fair value.

Accrued Interest Receivable

The carrying amount of accrued interest receivable approximates its fair value since it is short-term in nature and does not present unanticipated credit concerns.

Mortgage Servicing Assets

The fair values of mortgage servicing assets were calculated by a cumulative-effect adjustment third party using a discounted cash flow model-based technique that uses significant assumptions both observable and non-observable in the market. The unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the mortgage servicing asset.

Deposits

The fair value of demand deposits, savings accounts and certain money market account deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities based on a discounted cash flow calculation.

FHLB Advances and Other Borrowings

The fair values of advances and borrowings with fixed maturities are estimated based on a discounted cash flow analysis using as discount rates the interest rates charged by the FHLB for borrowing of similar remaining terms. The carrying amount of overnight advances approximates their fair value.

Accrued Interest Payable

The carrying amount of accrued interest payable approximates its fair value since it is short-term in nature.

Commitments to Extend Credit

The fair values of commitments to extend credit are estimated using the allowance for credit losses of \$1.1 million, an increase in deferred tax assets of \$0.3 million, and a decrease in retained earnings of \$0.8 million as fees normally charged to enter into similar agreements, taking into account the remaining terms of the adoption date. In addition, a liability for \$0.1 million was established for unfunded loan commitments as agreements and the present creditworthiness of the adoption date. counter parties.

Commitments to Sell Loans

The Company did not record an allowance fair values of commitments to sell loans are estimated using the quoted market prices for available for sale securities on January 1, 2023 as the investment portfolio consists almost entirely of debt securities implicitly backed by the U.S. Government for which credit risk is deemed negligible. The impact of this ASU could change in the future depending on the composition, characteristics, loans with similar interest rates and credit quality of the securities portfolio as well as the economic conditions at future reporting periods. See Note terms to maturity.

(7) – “Securities Available For Sale” and Note 9 – “Allowance for Credit Losses and Credit Quality Information”.

On February 6, 2020, the FASB issued ASU 2020-02, Disclosures about Fair Values of Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842)-Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No.119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No.2016-02, Leases (Topic 842). The amendments in this ASU related to Leases (Topic 842) Instruments did not have any impact on the Company. The amendments in this ASU related to Topic 326 add additional guidance related to the SEC’s expectations for the documentation requires interim reporting period disclosure of the measurement, review process, and the systematic methodology used by entities to determine the current credit losses under FASB ASC Topic 326. This additional guidance requires enhanced review documentation and periodic reviews estimated fair values of the Company’s calculation financial instruments, including assets, liabilities and off-balance sheet items for which it is practicable to estimate fair value. The fair value estimates are made as of March 31, 2024 and December 31, 2023 based upon relevant market information, if available, and upon the characteristics of the allowance financial instruments themselves. Because no market exists for credit losses by a third party.

(4) Fair Value Measurements significant portion of the Company’s financial instruments, fair value estimates are based upon judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors.

ASC

The estimated fair value of the Company’s financial instruments as of 820, March 31, 2024 Fair Value Measurements, establishes a framework for measuring and December 31, 2023 are shown below. There is an explanation of the methods and assumptions used to estimate the fair value of assets each class of financial instruments following the table.

	March 31, 2024						December 31, 2023		
			Fair Value Hierarchy						
	Carrying	Estimated				Contract	Carrying	Estimated	Contract
(Dollars in thousands)	Amount	Fair Value	Level 1	Level 2	Level 3	Amount	Amount	Fair Value	Amount
Financial assets:									
Cash and cash equivalents	\$ 50,230	50,230	50,230				11,151	11,151	
Securities available for sale	206,609	206,609		206,609			215,094	215,094	
Equity securities	394	394		394			382	382	
Loans held for sale	4,146	4,146		4,146			1,006	1,006	
Loans receivable, net	856,560	792,017		792,017			845,692	778,952	
Federal Home Loan Bank stock	665	665		665			1,252	1,252	
Accrued interest receivable	3,674	3,674		3,674			3,553	3,553	
Mortgage servicing assets	2,631	6,536			6,536		2,709	6,539	
Financial liabilities:									
Deposits	1,030,918	1,029,689		1,029,689			976,793	975,963	
FHLB advances and other borrowings	0	0		0			13,200	13,200	
Accrued interest payable	3,730	3,730		3,730			2,399	2,399	
Off-balance sheet financial instruments:									
Commitments to extend credit	(18)	(18)				159,183	7	7	167,447
Commitments to sell loans	(7)	(7)				9,376	(17)	(17)	3,078

Cash and liabilities using a hierarchy system consisting Cash Equivalents

The carrying amount of three levels, based on the markets in which the assets cash and liabilities are traded and the reliability of the assumptions used to determine cash equivalents approximates their fair value. These levels are:

Level 1 Securities Available for Sale- Valuation is

The fair values of securities were based upon quoted market prices for identical instruments traded in active markets that the Company has the ability similar securities. The fair values measurements are subject to access, independent verification by another pricing source on a quarterly basis to review for reasonableness.

Level 2 Equity Securities- Valuation is

The fair values of equity securities were based upon quoted market prices for similar instruments in active markets, securities.

Loans Held for Sale

The fair values of loans held for sale were based upon quoted market prices for identical or loans with similar instruments interest rates and terms to maturity.

Loans Receivable

The fair value of the loan portfolio, with the exception of the adjustable rate portfolio, was calculated by discounting the scheduled cash flows through the estimated maturity using anticipated prepayment speeds and using discount rates that reflect the credit and interest rate risk inherent in markets each loan portfolio. The fair value of the adjustable loan portfolio, with the exception of those loans that are not active, adjust on a daily basis, is estimated by grouping the loans with similar characteristics and model-based valuation techniques comparing the characteristics of each group to the prices quoted for which significant assumptions are observable similar types of loans in the secondary market.

Federal Home Loan Bank (FHLB) Stock

The carrying amount of FHLB stock approximates its fair value.

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Level Accrued Interest Receivable

The carrying amount of accrued interest receivable approximates its fair value since it is short-term in nature and does not present unanticipated credit concerns.

Mortgage Servicing Assets- Valuation is generated from

The fair values of mortgage servicing assets were calculated by a third party using a discounted cash flow model-based techniques technique that uses significant assumptions not both observable and non-observable in the market and are used only to the extent that observable inputs are not available. These market. The unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use mortgage servicing asset.

Deposits

The fair value of option pricing models, demand deposits, savings accounts and certain money market account deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities based on a discounted cash flow models and similar techniques. calculation.

FHLB Advances and Other Borrowings

The following table summarizes fair values of advances and borrowings with fixed maturities are estimated based on a discounted cash flow analysis using as discount rates the assets and off-balance sheet financial instruments interest rates charged by the FHLB for borrowing of similar remaining terms. The carrying amount of overnight advances approximates their fair value.

Accrued Interest Payable

The carrying amount of accrued interest payable approximates its fair value since it is short-term in nature.

Commitments to Extend Credit

The fair values of commitments to extend credit are estimated using the fees normally charged to enter into similar agreements, taking into account the remaining terms of the Company for which agreements and the present creditworthiness of the counter parties.

Commitments to Sell Loans

The fair values of commitments to sell loans are determined on a recurring basis as of September 30, 2023 estimated using the quoted market prices for loans with similar interest rates and December 31, 2022.

Carrying Value at September 30, 2023				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Securities available for sale	\$ 218,167	0	218,167	
Equity securities	309	0	309	
Commitments to extend credit	(37)	0	(37)	
Total	\$ 218,439	0	218,439	

Carrying Value at December 31, 2022				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Securities available for sale	\$ 246,019	0	246,019	
Equity securities	225	0	225	
Commitments to extend credit	(28)	0	(28)	

Total	\$	246,216	0	246,216
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The Company may also be required, from time **terms** to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write-downs of individual assets. The following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at September 30, 2023 and December 31, 2022.**maturity.**

Carrying Value at September 30, 2023						Three Months Ended September 30, 2023 Total Gains (Losses)	Nine Months Ended September 30, 2023 Total Gains (Losses)
(Dollars in thousands)	Total	Level 1	Level 2	Level 3			
Loans held for sale	\$ 1,898	0	1,898	0		(14)	(24)
Mortgage servicing rights	2,780	0	0	2,780		0	0
Collateral dependent loans	1,171	0	1,171	0		(2)	(14)
Total	\$ 5,849	0	3,069	2,780		(16)	(38)

Carrying Value at December 31, 2022						Year Ended December 31, 2022 Total Gains (Losses)
(Dollars in thousands)	Total	Level 1	Level 2	Level 3		
Loans held for sale	\$ 1,314	0	1,314	0		3
Mortgage servicing rights, net	2,986	0	0	2,986		0
Impaired loans	1,978	0	1,978	0		(46)
Total	\$ 6,278	0	3,292	2,986		(43)

(5) Fair Value of Financial Instruments

ASC 825,Disclosures about Fair Values of Financial Instruments requires interim reporting period disclosure of the estimated fair values of the Company's financial instruments, including assets, liabilities and off-balance sheet items for which it is practicable to estimate fair value. The fair value estimates are made as of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023** based upon relevant market information, if available, and upon the characteristics of the financial instruments themselves. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based upon judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors.

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The estimated fair value of the Company's financial instruments as of **September 30, 2023** **March 31, 2024** and December 31, **2022** **2023** are shown below. **Following the table there** **There** is an explanation of the methods and assumptions used to estimate the fair value of each class of financial **instruments.****instruments following the table.**

(Dollars in thousands)	September 30, 2023						December 31, 2022						March 31, 2024						December 31, 2023	
	Fair Value Hierarchy						Fair Value Hierarchy						Fair Value Hierarchy						Fair Value Hierarchy	
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3	Contract Amount	Carrying Amount	Estimated Fair Value	Contract Amount	Carrying Amount	Estimated Fair Value	Contract Amount	Carrying Amount	Estimated Fair Value	Contract Amount	Carrying Amount	Estimated Fair Value	Contract Amount	Carrying Amount	Estimated Fair Value
Financial assets:																				
Cash and cash equivalents	\$ 46,676	46,676	46,676				36,259	36,259		\$ 50,230	50,230	50,230				11,151	11,151			
Securities available for sale	218,167	218,167		218,167			246,019	246,019		206,609	206,609		206,609			215,094	215,094			

Equity securities	309	309	309	225	225	394	394	394	382		
Loans held for sale	1,898	1,898	1,898	1,314	1,314	4,146	4,146	4,146	1,006		
Loans receivable, net	850,760	780,050	780,050	777,078	724,497	856,560	792,017	792,017	845,692	77	
Federal Home Loan Bank stock	1,316	1,316	1,316	1,283	1,283	665	665	665	1,252		
Accrued interest receivable	3,868	3,868	3,868	3,003	3,003	3,674	3,674	3,674	3,553		
Mortgage servicing assets	2,780	6,624	6,624	2,986	6,344	2,631	6,536	6,536	2,709		
Financial liabilities:											
Deposits	1,043,588	977,135	977,135	981,926	983,420	1,030,918	1,029,689	1,029,689	976,793	97	
FHLB advances and other borrowings						0	0	0	13,200	1	
Accrued interest payable	2,377	2,377	2,377	298	298	3,730	3,730	3,730	2,399		
Off-balance sheet financial instruments:											
Commitments to extend credit	(37)	(37)		197,776	(28)	(28)	232,940	(18)	(18)	159,183	7
Commitments to sell loans	33	33		6,941	8	8	6,575	(7)	(7)	9,376	(17)

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates their fair value.

Securities Available for Sale

The fair values of securities were based upon quoted market prices for similar securities. The fair values measurements are subject to independent verification by another pricing source on a quarterly basis to review for reasonableness.

Equity Securities

The fair values of equity securities were based upon quoted market prices for similar securities.

Loans Held for Sale

The fair values of loans held for sale were based upon quoted market prices for loans with similar interest rates and terms to maturity.

Loans Receivable

The fair value of the loan portfolio, with the exception of the adjustable rate portfolio, was calculated by discounting the scheduled cash flows through the estimated maturity using anticipated prepayment speeds and using discount rates that reflect the credit and interest rate risk inherent in each loan portfolio. The fair value of the adjustable loan portfolio, was with the exception of those loans that adjust on a daily basis, is estimated by grouping the loans with similar characteristics and comparing the characteristics of each group to the prices quoted for similar types of loans in the secondary market. The fair value disclosures for both the fixed and adjustable rate portfolios were adjusted to reflect the exit price amount anticipated to be received from the sale of the portfolio in an open market transaction.

Federal Home Loan Bank (FHLB) Stock

The carrying amount of FHLB stock approximates its fair value.

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Accrued Interest Receivable

The carrying amount of accrued interest receivable approximates its fair value since it is short-term in nature and does not present unanticipated credit concerns.

Mortgage Servicing Assets

The fair values of mortgage servicing assets were calculated by a third party using a discounted cash flow model-based technique that uses significant assumptions both observable and non-observable in the market. The non-observable unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the mortgage servicing asset.

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Deposits

The fair value of demand deposits, savings accounts and certain money market account deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. maturities based on a discounted cash flow calculation.

FHLB Advances and Other Borrowings

The fair value disclosures values of advances and borrowings with fixed maturities are estimated based on a discounted cash flow analysis using as discount rates the interest rates charged by the FHLB for all borrowing of the deposits were adjusted to reflect the exit price similar remaining terms. The carrying amount anticipated to be received from the sale of the deposits in an open market transaction.overnight advances approximates their fair value.

Accrued Interest Payable

The carrying amount of accrued interest payable approximates its fair value since it is short-term in nature.

Commitments to Extend Credit

The fair values of commitments to extend credit are estimated using the fees normally charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties.

Commitments to Sell Loans

The fair values of commitments to sell loans are estimated using the quoted market prices for loans with similar interest rates and terms to maturity.

(6) Other Comprehensive Income (Loss)

Other comprehensive income (loss) is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income (loss) is the total of net income and other comprehensive income or loss, which for the Company is comprised of unrealized gains or losses on securities available for sale. The components of other comprehensive income (loss) and the related tax effects were as follows:

(Dollars in thousands)	For the Three Months Ended September 30,					
	2023			2022		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Securities available for sale:						
Unrealized gains (losses) arising during the period	\$ (2,316)	(628)	(1,688)	(9,100)	(1,911)	(7,189)
Other comprehensive income (loss)	\$ (2,316)	(628)	(1,688)	(9,100)	(1,911)	(7,189)

(Dollars in thousands)	For the Nine Months Ended September 30,					
	2023			2022		
	Before Tax	Tax Effect (1)	Net of Tax	Before Tax	Tax Effect	Net of Tax
Securities available for sale:						
Unrealized gains (losses) arising during the period	\$ 636	(627)	1,263	(30,782)	(7,324)	(23,458)
Other comprehensive income (loss)	\$ 636	(627)	1,263	(30,782)	(7,324)	(23,458)

(1) The tax effect on gross unrealized gains (losses) was impacted by a change in the effective tax rate used in the second quarter of 2023 to allocate the total unrealized gains on securities between the deferred tax asset and other comprehensive income.

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(7) Securities Available For Sale

The following table shows the gross unrealized losses and fair values for the securities available for sale portfolio, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at **September 30, 2023**, **March 31, 2024** and December 31, **2022**, **2023**.

(Dollars in thousands)	Less Than Twelve Months			Twelve Months or More			Total		Less Than Twelve Months			Twelve Months or More	
	# of	Fair	Unrealized	# of	Fair	Unrealized	Fair	Unrealized	# of	Fair	Unrealized	# of	
	Investments	Value	Losses	Investments	Value	Losses	Value	Losses	Investments	Value	Losses	Investments	
September 30, 2023													
March 31, 2024													
Mortgage backed securities:													
Federal National Mortgage Association (FNMA)	0	\$ 0	0	34	\$ 88,744	(13,145)	\$ 88,744	(13,145)	0	\$ 0	0	34	
Federal Home Loan Mortgage Corporation (FHLMC)	0	0	0	24	75,073	(11,202)	75,073	(11,202)	0	0	0	24	
Collateralized mortgage obligations:													
FNMA	0	0	0	1	32	(3)	32	(3)	0	0	0	1	
Other marketable securities:													
U.S. Government agency obligations	2	9,841	(92)	9	43,987	(1,012)	53,828	(1,104)	5	24,874	(76)	4	
Corporate preferred stock	0	0	0	1	490	(210)	490	(210)					
Total temporarily impaired securities	2	\$ 9,841	(92)	69	\$ 208,326	(25,572)	\$ 218,167	(25,664)	5	\$ 24,874	(76)	63	
December 31, 2022													
Mortgage backed securities:													
FNMA	12	\$ 19,337	(1,629)	22	\$ 85,599	(11,125)	\$ 104,936	(12,754)					
FHLMC	4	10,542	(1,214)	20	77,174	(9,963)	87,716	(11,177)					
Collateralized mortgage obligations:													
FNMA	1	36	(2)	0	0	0	36	(2)					

Other marketable securities:								
U.S. government agency obligations	4	19,334	(667)	7	33,507	(1,490)	52,841	(2,157)
Corporate preferred stock	0	0	0	1	490	(210)	490	(210)
Total temporarily impaired securities	21	\$ 49,249	(3,512)	50	\$ 196,770	(22,788)	\$ 246,019	(26,300)

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(Dollars in thousands)	Less Than Twelve Months			Twelve Months or More			Total	
	# of Investments	Fair Value	Unrealized Losses	# of Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023								
Mortgage backed securities:								
FNMA	0	\$ 0	0	34	\$ 87,133	(9,704)	\$ 87,133	(9,704)
FHLMC	0	0	0	24	74,249	(8,246)	74,249	(8,246)
Collateralized mortgage obligations:								
FNMA	0	0	0	1	32	(2)	32	(2)
Other marketable securities:								
U.S. government agency obligations	1	5,000	(9)	7	34,456	(543)	39,456	(552)
Total temporarily impaired securities	1	\$ 5,000	(9)	66	\$ 195,870	(18,495)	\$ 200,870	(18,504)

The Company reviews its investment portfolio on a quarterly basis for indications of impairment due to credit-related factors or noncredit-related factors and noncredit-related factors. the Company does not intend to sell the securities and has the intent and ability to hold them for a period of time sufficient for recovery in their amortized cost basis. This review includes analyzing the extent to which the fair value has been lower than the cost, the market liquidity for the investment, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

As of September 30, 2023, March 31, 2024, the Company does did not consider the unrealized losses on its securities available for sale to be attributable to credit-related factors. All of the Company's investments with the exception of the corporate preferred stock, are issued by U.S. government agencies, are implicitly guaranteed by the U.S. government, and have a long history of no credit losses. The unrealized loss losses on impaired securities other than the corporate preferred stock, are the result of changes in interest rates. The unrealized losses reported for the corporate preferred stock at September 30, 2023 related to As a single trust preferred security that was issued by the holding company of a community bank. As of September 30, 2023 all payments were current on the trust preferred security and the issuer's subsidiary bank was considered to be well-capitalized based on its most recent regulatory filing. Based on a review of the issuer, it was determined that the trust preferred security result, there was not no impaired as a result of credit-related factors at September 30, 2023. The Company does not intend to sell the security and has the intent and ability to hold it for a period of time sufficient for recovery in amortized cost. Management believes that the Company will receive all principal and interest payments contractually due on the security and that the decrease in the market value is primarily due to a lack of liquidity in the market for trust preferred securities. Management will continue to monitor the credit risk of the issuer and may be required to recognize an other-than-temporary impairment on this security in future periods by recording an allowance for credit losses. There were no other-than-temporary impairments charged to earnings during losses required on available for sale debt securities in an unrealized loss position at 2022. March 31, 2024. During the three and nine-month month periods ended September 30, 2023 March 31, 2024 and September 30, 2022, March 31, 2023, there were no sales of securities.

The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of securities available for sale. Accrued interest receivable on securities available for sale was reported as a component of accrued interest receivable on the consolidated balance sheet, totaled \$0.4 million at

September 30, 2023, and was excluded from the estimated credit losses.

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A summary of securities available for sale at September 30, 2023 March 31, 2024 and December 31, 2022 2023 is as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023								
March 31, 2024								
Mortgage-backed securities:								
FNMA	\$ 101,889	0	(13,145)	88,744	\$ 92,099	0	(9,625)	82,474
FHLMC	86,275	0	(11,202)	75,073	78,652	0	(8,398)	70,254
Collateralized mortgage obligations:								
FNMA	35	0	(3)	32	33	0	(2)	31
	188,199	0	(24,350)	163,849	170,784	0	(18,025)	152,759
Other marketable securities:								
U.S. Government agency obligations	54,932	0	(1,104)	53,828	54,221	26	(397)	53,850
Corporate preferred stock	700	0	(210)	490				
	55,632	0	(1,314)	54,318	54,221	26	(397)	53,850
	\$ 243,831	0	(25,664)	218,167	\$ 225,005	26	(18,422)	206,609
December 31, 2022								
December 31, 2023								
Mortgage-backed securities:								
FNMA	\$ 117,690	0	(12,754)	104,936	\$ 96,837	0	(9,704)	87,133
FHLMC	98,893	0	(11,177)	87,716	82,495	0	(8,246)	74,249
Collateralized mortgage obligations:								
FNMA	38	0	(2)	36	34	0	(2)	32
	216,621	0	(23,933)	192,688	179,366	0	(17,952)	161,414
Other marketable securities:								
U.S. Government agency obligations	54,998	0	(2,157)	52,841	54,112	120	(552)	53,680
Corporate preferred stock	700	0	(210)	490				
	55,698	0	(2,367)	53,331	54,112	120	(552)	53,680
	\$ 272,319	0	(26,300)	246,019	\$ 233,478	120	(18,504)	215,094

The Company had available for sale securities pledged as collateral for customer deposits in excess of the \$250,000 11 insurance limit of the Federal Deposit Insurance Corporation. The securities pledged had a fair market value of \$42.6 million and \$45.9 million at September 30, 2023 and December 31, 2022, respectively.

The following table indicates amortized cost and estimated fair value of securities available for sale at September 30, 2023 March 31, 2024 based upon contractual maturity adjusted for scheduled repayments of principal and projected prepayments of principal based upon current economic conditions and interest rates.

(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	\$ 75,709	69,735	\$ 64,284	60,418
Due after one year through five years	128,724	114,251	125,539	114,722
Due after five years through fifteen years	39,395	34,179	35,179	31,466
Due after fifteen years	3	2	3	3
Total	\$ 243,831	218,167	\$ 225,005	206,609

The allocation of mortgage-backed securities in the table above is based upon the anticipated future cash flow of the securities using estimated mortgage prepayment speeds. The allocation of other marketable securities that have call features is based on the anticipated cash flows to the expected call date if it is anticipated that the security will be called, or to the maturity date if it is not anticipated to be called.

The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of securities available for sale. Accrued interest receivable on securities available for sale is reported as a component of accrued interest receivable on the consolidated balance sheet and totaled \$0.5 million at both March 31, 2024 and December 31, 2023 and these amounts are excluded from the estimated credit losses.

The Company had available for sale securities pledged as collateral for customer deposits in excess of the \$250,000 insurance limit of the Federal Deposit Insurance Corporation. The securities pledged had a fair market value of \$41.6 million at March 31, 2024 and December 31, 2023.

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) Other Comprehensive (Loss) Income

Other comprehensive (loss) income is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive (loss) income is the total of net income and other comprehensive income or loss, which for the Company is comprised of unrealized gains or losses on securities available for sale. The components of other comprehensive (loss) income and the related tax effects were as follows:

(Dollars in thousands)	For the period ended March 31,					
	2024			2023		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax (1)	Net of Tax
Securities available for sale:						
Unrealized (losses) gains arising during the period	\$ (12)	(4)	(8)	2,845	599	2,246
Other comprehensive (loss) income	\$ (12)	(4)	(8)	2,845	599	2,246

(1) The tax effect on gross unrealized (losses) gains was impacted by a change in the effective tax rate used in 2023 to allocate the total unrealized gains on securities between the deferred tax asset and other comprehensive income.

(8) Loans Receivable, Net

A summary of loans receivable at September 30, 2023 March 31, 2024 and December 31, 2022 2023 is as follows:

(Dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Single family	\$ 260,716	205,890	\$ 260,602	264,303
Commercial real estate:				
Real estate rental and leasing	270,638	249,783	276,751	271,531
Other	224,389	221,562	226,588	218,422
	495,027	471,345	503,339	489,953
Consumer	43,991	44,817	41,110	42,734
Commercial business	63,663	65,835	63,679	61,118
Total loans	863,397	787,887	868,730	858,108
Less:				
Unamortized discounts	15	13	14	15
Net deferred loan fees	655	519	570	577
Allowance for credit losses	11,967	10,277	11,586	11,824
Total loans receivable, net	\$ 850,760	777,078	\$ 856,560	845,692

(9) Allowance for Credit Losses and Credit Quality Information

The allowance for credit losses is summarized as follows:

(Dollars in thousands)	Single Family	Commercial Real Estate	Consumer	Commercial Business	Total
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For the three months ended September 30, 2023:

Balance, June 30, 2023	\$	1,243	7,865	582	1,827	11,517
Provision for losses		155	187	(1)	103	444
Charge-offs		0	0	0	0	0
Recoveries		1	0	5	0	6
Balance, September 30, 2023	\$	1,399	8,052	586	1,930	11,967

For the nine months ended September 30, 2023:

Balance, December 31, 2022	\$	1,261	7,026	1,058	932	10,277
January 1, 2023 adoption of ASU 2016-13		(259)	512	(485)	1,302	1,070
Provision for losses		395	514	34	(331)	612
Charge-offs		0	0	(27)	0	(27)
Recoveries		2	0	6	27	35
Balance, September 30, 2023	\$	1,399	8,052	586	1,930	11,967

Allocated to:

Individual allowance	\$	33	0	112	17	162
Collective allowance		1,228	7,026	946	915	10,115
Balance, December 31, 2022	\$	1,261	7,026	1,058	932	10,277

Allocated to:

Individual allowance	\$	29	0	112	23	164
Collective allowance		1,370	8,052	474	1,907	11,803
Balance, September 30, 2023	\$	1,399	8,052	586	1,930	11,967

Loans receivable at December 31, 2022:

Individually reviewed for impairment	\$	908	179	492	561	2,140
Collectively reviewed for impairment		204,982	471,166	44,325	65,274	785,747
Ending balance	\$	205,890	471,345	44,817	65,835	787,887

Loans receivable at September 30, 2023:

Individually reviewed for impairment	\$	638	177	458	62	1,335
Collectively reviewed for impairment		260,078	494,850	43,533	63,601	862,062
Ending balance	\$	260,716	495,027	43,991	63,663	863,397

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	Single	Commercial		Commercial	
(Dollars in thousands)	Family	Real Estate	Consumer	Business	Total
For the three months ended September 30, 2022:					
Balance, June 30, 2022,	\$ 1,068	6,586	1,047	943	9,644
Provision for losses	77	505	12	(15)	579
Charge-offs	0	(90)	(8)	0	(98)
Recoveries	1	0	5	10	16
Balance, September 30, 2022	<u>\$ 1,146</u>	<u>7,001</u>	<u>1,056</u>	<u>938</u>	<u>10,141</u>
For the nine months ended September 30, 2022:					
Balance, December 31, 2021	\$ 974	6,388	981	936	9,279

Provision for losses	171	703	92	(25)	94
Charge-offs	0	(90)	(24)	0	(11)
Recoveries	1	0	7	27	3
Balance, September 30, 2022	<u>\$ 1,146</u>	<u>7,001</u>	<u>1,056</u>	<u>938</u>	<u>10,14</u>

(Dollars in thousands)	Single Family	Commercial Real Estate	Consumer	Commercial Business	Total
Balance, December 31, 2023	\$ 1,426	7,514	607	2,277	11,82
Provision for losses	(181)	(94)	(111)	178	(20)
Charge-offs	(30)	0	0	0	(3)
Recoveries	0	0	0	0	0
Balance, March 31, 2024	<u>\$ 1,215</u>	<u>7,420</u>	<u>496</u>	<u>2,455</u>	<u>11,58</u>
Balance, December 31, 2022	\$ 1,261	7,026	1,058	932	10,27
January 1, 2023 adoption of ASU 2016-13	(259)	512	(485)	1,302	1,07
Provision for losses	(44)	23	46	(57)	(3)
Recoveries	1	0	1	25	2
Balance, March 31, 2023	<u>\$ 959</u>	<u>7,561</u>	<u>620</u>	<u>2,202</u>	<u>11,34</u>
Allocated to:					
Individual reserves	\$ 28	0	103	297	42
Collective reserves	1,398	7,514	504	1,980	11,39
Balance, December 31, 2023	<u>\$ 1,426</u>	<u>7,514</u>	<u>607</u>	<u>2,277</u>	<u>11,82</u>
Allocated to:					
Individual reserves	\$ 26	0	97	296	41
Collective reserves	1,189	7,420	399	2,159	11,16
Balance, March 31, 2024	<u>\$ 1,215</u>	<u>7,420</u>	<u>496</u>	<u>2,455</u>	<u>11,58</u>
Loans receivable at December 31, 2023:					
Individually reviewed for impairment	\$ 979	668	425	2,212	4,28
Collectively reviewed for impairment	263,324	489,285	42,309	58,906	853,82
Ending balance	<u>\$ 264,303</u>	<u>489,953</u>	<u>42,734</u>	<u>61,118</u>	<u>858,10</u>
Loans receivable at March 31, 2024:					
Individually reviewed for impairment	\$ 958	636	382	1,284	3,26
Collectively reviewed for impairment	259,644	502,703	40,728	62,395	865,47
Ending balance	<u>\$ 260,602</u>	<u>503,339</u>	<u>41,110</u>	<u>63,679</u>	<u>868,73</u>

The Company adopted ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* on January 1, 2023, and uses a standardized process to determine the appropriateness of the allowance for credit losses (ACL) for the commercial real estate, commercial business, single family, and consumer loan portfolios. The determination of the ACL for each of these portfolios is calculated on a pooled basis when similar risk characteristics exist and on an individual basis when loans do not share risk characteristics, such as all non-performing loans. The determination of the quantitative pooled loan reserves for the commercial real estate and commercial business loan portfolios involves analyzing prior year losses over a full credit cycle by their assigned standardized risk ratings and applying these historic loss factors to the loans in the current portfolio with similar risk ratings. This process is referred to as a vintage loss analysis. The determination of the quantitative pooled loan reserves for the single family and consumer loan portfolios involves analyzing prior year losses over a full credit cycle based on certain loan and borrower risk characteristics when the loans were originated and applying these historic loss factors to the loans in the current portfolio with

similar risk characteristics. Qualitative reserves are also established and reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. **The determination of the qualitative reserves for all of the loan categories involves an analysis and consideration of certain factors that are anticipated to have an impact on future credit losses including, but not limited to: actual and anticipated changes in the size, composition, and concentrations of the loan portfolios; national, regional, and local economic conditions including inflation and unemployment data; loan delinquencies, the level of non-accrual loans, and risk rating trends; lending policies, procedures, and staffing; the scope and results of loan quality reviews; and the demand for single family homes, commercial real estate, and building lots.**

The Company's total expected loss estimate is based, in part, on the maximum historical credit loss experience of each pool of loans over a full credit cycle and all available portfolio data is considered in the analysis. When historical credit loss experience is not sufficient for a specific portfolio, the Company may supplement its own portfolio data with external data. Assessing these numerous factors involves significant judgement.

Collateral dependent loans are those for which the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. These loans do not typically share similar risk characteristics with other loans and expected credit losses are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. Estimates of expected credit losses for collateral dependent loans, whether or not foreclosure is probable, are based on the fair value of the collateral, adjusted for selling costs when repayment depends on the sale of the collateral. **The appropriateness of the ACL on individually reviewed collateral dependent loans is dependent upon management's estimates of variables affecting valuation, appraisals of collateral, evaluations of performance and status and the amounts and timing of future cash flows expected to be received on these loans. Such estimates, appraisals, evaluations, and cash flows may be subject to adjustments due to changing economic prospects of borrowers or properties. The fair market value of collateral dependent loans is typically based on the appraised value of the property less estimated selling costs. The estimates are reviewed periodically, and any adjustments are recorded in the provision for credit losses in the periods in which the adjustments become known and loans are charged off to the extent they are deemed to be uncollectible. Because of the size of some loans, changes in estimates can have a significant impact on the credit loss provision. The Company increases its allowance for credit losses by charging the provision for credit losses against income and by receiving recoveries of previously charged off loans. The Company decreases its allowance by crediting the provision for credit losses and recording loan charge-offs. The methodology for establishing the allowance for credit losses takes into consideration probable losses that have been identified in connection with the loans individually reviewed as well as the expected losses in each identified pool of loans that have not been individually reviewed.**

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The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans. Accrued interest receivable on loans is reported as a component of accrued interest receivable on the consolidated balance sheet and totaled **\$3.4 million \$3.2 million and \$3.0 million at September 30, March 31, 2024 and December 31, 2023, respectively, and is** was excluded from the estimated credit losses.

In addition to the ACL on loans, the Company has established an ACL on unfunded commitments that is included in other liabilities on the consolidated balance sheets. This reserve is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments. This amount is determined quarterly based on an estimate of **the outstanding commitments that are anticipated to be funded and multiplying those amounts by the loss rate for their loan category. The allowance for unfunded commitments was not material at September 30, 2023 March 31, 2024 and was \$0.1 million at not March 31, 2023. material.**

The provision for credit losses is determined by the Company as the amount to be added to the ACL for various types of financial instruments including loans, investment securities, and off-balance sheet credit exposures after net charge-offs have been deducted to bring the ACL to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. No provision for credit losses was recorded on available-for-sale investment securities **in for the quarters ended three March 31, 2024 or nine-month periods ended September 30, 2023.**

The following table presents the components of the provision for credit losses for the **three first quarters of 2024 and nine-month periods ended September 30, 2023 and 2022, 2023.**

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
<i>(Dollars in thousands)</i>		
Provision for credit losses on:		
Loans (1)	\$ 444	6
Unfunded commitments(1)	(126)	(
Total	\$ 318	5
	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
<i>(Dollars in thousands)</i>		
Provision for credit losses on:		

Loans (1)	\$	579	\$
Total	\$	579	\$

(1)The Company adopted ASU 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior accounting standard.

(Dollars in thousands)	Three months ended March 31,	
	2024	2023
Provision for credit losses on:		
Loans	\$ (208)	
Unfunded commitments	(1)	
Total	\$ (209)	

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The following table presents total loans by risk categories and year of origination as of September 30, March 31, 2024:

(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving	Total
Single family								
Pass	\$ 2,823	80,466	56,798	61,380	32,958	24,686	0	259,111
Special Mention	0	0	0	0	0	0	0	0
Substandard	0	0	533	0	77	846	0	1,456
Doubtful	0	0	0	0	0	35	0	35
Loss	0	0	0	0	0	0	0	0
	2,823	80,466	57,331	61,380	33,035	25,567	0	260,602
Current period gross charge-offs	0	0	0	0	0	30	0	30
Commercial Real Estate								
Pass	16,281	70,863	184,499	107,230	71,955	23,054	0	473,882
Special Mention	0	1,942	8,233	2,175	1,246	1,006	0	14,602
Substandard	0	462	347	910	10,948	2,188	0	14,855
Doubtful	0	0	0	0	0	0	0	0
Loss	0	0	0	0	0	0	0	0
	16,281	73,267	193,079	110,315	84,149	26,248	0	503,339
Consumer								
Pass	3,663	7,483	6,698	1,391	1,800	6,676	13,020	40,731
Special Mention	19	0	0	0	0	0	0	19
Substandard	0	7	29	109	0	97	28	270
Doubtful	0	14	0	0	0	0	19	33
Loss	0	7	0	13	0	0	37	57
	3,682	7,511	6,727	1,513	1,800	6,773	13,104	41,110
Commercial Business								
Pass	1,776	12,060	6,376	3,198	2,960	407	33,475	60,252
Special Mention	60	0	0	0	0	0	171	231
Substandard	0	1,274	441	142	94	31	1,214	3,196
Doubtful	0	0	0	0	0	0	0	0

Loss	0	0	0	0	0	0	0	0
	1,836	13,334	6,817	3,340	3,054	438	34,860	63,679
Total Loans	\$ 24,622	174,578	263,954	176,548	122,038	59,026	47,964	868,730

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The following table presents total loans by risk categories and year of origination as of December 31, 2023:

(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Total	2023	2022	2021	2020	2019	Prior	Re
Single family															
Unclassified	\$ 71,341	61,468	64,829	35,153	11,441	15,575	0	259,807	\$ 81,070	59,474	62,690	33,637	10,915	14,635	
Special Mention	0	0	0	0	0	0	0	0	0	511	0	0	0	0	
Substandard	79	193	0	80	185	332	0	869	64	546	0	79	182	462	
Doubtful	0	0	0	0	25	15	0	40	0	0	0	0	24	14	
Loss	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	71,420	61,661	64,829	35,233	11,651	15,922	0	260,716	81,134	60,531	62,690	33,716	11,121	15,111	
Commercial															
Real Estate															
Unclassified	54,927	192,113	113,087	77,712	14,928	9,898	0	462,665	64,688	187,320	109,729	75,754	14,531	9,603	
Special Mention	711	8,564	2,665	161	0	1,026	0	13,127	1,026	7,756	2,188	371	0	1,016	
Substandard	2,965	658	292	13,109	639	1,572	0	19,235	2,225	388	292	10,867	637	1,562	
Doubtful	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Loss	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	58,603	201,335	116,044	90,982	15,567	12,496	0	495,027	67,939	195,464	112,209	86,992	15,168	12,181	
Consumer															
Unclassified	8,613	8,522	1,864	2,175	2,631	5,171	14,525	43,501	9,913	7,583	1,606	1,870	2,369	4,778	
Special Mention	34	0	0	0	0	0	0	34	20	0	0	0	0	0	
Substandard	0	26	136	0	3	131	43	339	8	26	52	0	3	113	
Doubtful	0	15	0	0	0	0	0	15	15	0	0	0	0	0	
Loss	4	0	34	0	0	23	41	102	3	0	116	0	0	0	
	8,651	8,563	2,034	2,175	2,634	5,325	14,609	43,991	9,959	7,609	1,774	1,870	2,372	4,891	
Current period gross write offs	0	1	0	0	0	26	0	27							
Current period gross charge-offs									0	1	0	0	0	49	
Commercial Business															
Unclassified	12,209	9,065	4,093	3,633	250	781	28,548	58,579	12,404	6,967	3,539	3,317	217	288	
Special Mention	0	572	0	0	0	0	54	626	0	0	0	0	0	0	
Substandard	1,503	479	196	195	20	35	2,030	4,458	1,703	483	152	104	11	31	
Doubtful	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Loss	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	13,712	10,116	4,289	3,828	270	816	30,632	63,663	14,107	7,450	3,691	3,421	228	319	

Current period														
gross									174	0	0	0	0	0
charge offs														
Total Loans	\$ 152,386	281,675	187,196	132,218	30,122	34,559	45,241	863,397	\$ 173,139	271,054	180,364	125,999	28,889	32,502

Credit Quality Indicators

The Company categorized loans into risk categories based on relevant information about the ability of borrowers to service their debt. The information considered includes information, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company established a risk rating at origination for all commercial real estate and commercial business loans and management monitors the loans on an ongoing basis for any changes in the borrower's ability to service their debt. Management also affirms the risk ratings for these loans on an annual basis.

Classified loans are categorized as special mention, substandard, doubtful, and loss. Loans classified as substandard, doubtful, or loss require the Bank to perform an analysis of the individual loan and charge off any loans, or portion thereof, that are deemed uncollectible. Loans not meeting the criteria on the following page to require an individual analysis that are not classified as special mention are considered to be unclassified or pass-rated loans.

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The Company uses the following definitions for classifying loans:

Special Mention - Loans classified as special mention are loans that have potential weaknesses that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date.

Substandard - Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

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Doubtful - Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss.

Loss - Loans classified as loss are essentially uncollateralized and/or considered uncollectible and of such little value that continuance as an asset on the balance sheet may not be warranted.

Classified loans are categorized as special mention, substandard, doubtful, and loss. Loans classified as substandard, doubtful, or loss require the Bank to perform an analysis of the individual loan and charge off any loans, or portion thereof, that are deemed uncollectible. Loans not meeting the criteria above to require an individual analysis that are not classified as special mention are considered to be unclassified or pass-rated loans.

The aging of past due loans at September 30, 2023, March 31, 2024 and December 31, 2022-2023 is summarized as follows:

(Dollars in thousands)									Loans 90								Loans 90
		30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	Days or More Past Due and Still Accruing	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	Days or More Past Due and Still Accruing		
September 30, 2023																	
March 31, 2024																	
Single family	real estate:	\$ 1,116	199	210	1,525	259,191	260,716	0	\$ 842	103	318	1,263	259,339	260,602	0		
Commercial real estate:																	
Real estate rental and leasing		71	0	0	71	270,567	270,638	0	0	0	0	0	276,751	276,751	0		
Other		820	0	0	820	223,569	224,389	0	0	619	0	619	225,969	226,588	0		

Consumer	327	22	63	412	43,579	43,991	0	210	42	43	295	40,815	41,110	0
Commercial business	0	937	0	937	62,726	63,663	0	640	702	46	1,388	62,291	63,679	0
Total	<u>\$ 2,334</u>	<u>1,158</u>	<u>273</u>	<u>3,765</u>	<u>859,632</u>	<u>863,397</u>	<u>0</u>							
December 31, 2022														
December 31, 2023								<u>\$ 1,692</u>	<u>1,466</u>	<u>407</u>	<u>3,565</u>	<u>865,165</u>	<u>868,730</u>	<u>0</u>
Single family	\$ 380	145	481	1,006	204,884	205,890	0	\$ 453	71	363	887	263,416	264,303	0
Commercial real estate:														
Real estate rental and leasing	0	0	0	0	249,783	249,783	0	0	0	0	0	271,531	271,531	0
Other	578	0	0	578	220,984	221,562	0	0	0	399	399	218,023	218,422	0
Consumer	394	123	88	605	44,212	44,817	0	361	92	57	510	42,224	42,734	0
Commercial business	0	0	0	0	65,835	65,835	0	0	309	812	1,121	59,997	61,118	0
Total	<u>\$ 1,352</u>	<u>268</u>	<u>569</u>	<u>2,189</u>	<u>785,698</u>	<u>787,887</u>	<u>0</u>							
								<u>\$ 814</u>	<u>472</u>	<u>1,631</u>	<u>2,917</u>	<u>855,191</u>	<u>858,108</u>	<u>0</u>

The Company considers a loan to have defaulted when it becomes 90 or more days past due and the loan is classified as non-accruing. When a loan is classified as non-accruing, any accrued interest on the loan is reversed from interest income and any subsequent interest on the loan is recognized using the cash basis method of income recognition. A non-accruing loan may be reclassified as an accruing loan after the loan becomes current.

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The following table presents the carrying value of **and related allowances for** collateral dependent individually analyzed loans as of **September 30, 2023**:

(Dollars in thousands)	September 30, 2023		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
Loans with no related allowance recorded:			
Single family	\$ 413	429	
Commercial real estate:			
Other	177	177	
Consumer	323	323	
Loans with an allowance recorded:			
Single family	225	225	
Consumer	135	135	
Commercial business	62	62	
Total:			
Single family	638	654	
Commercial real estate:			
Other (1)	177	177	
Consumer (2)	458	458	
Commercial business (3)	62	62	
Total	<u>\$ 1,335</u>	<u>1,351</u>	

(1) Secured by commercial land.

(2) Secured by second mortgages on single family housing, recreational vehicles, and autos.

(3) Secured by business equipment.

The following table presents, under previously applicable GAAP, loans individually evaluated for impairment by portfolio segment as of December **March 31, 2022:**

(Dollars in thousands)	December 31, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
Loans with no related allowance recorded:			
Single family	\$ 667	685	
Commercial real estate:			
Other	179	179	
Consumer	338	338	
Loans with an allowance recorded:			
Single family	241	241	
Consumer	154	154	
Commercial business	561	561	
Total:			
Single family	908	926	
Commercial real estate:			
Other (1)	179	179	
Consumer (2)	492	492	
Commercial business (3)	561	561	
Total	\$ 2,140	2,158	

(1) Secured by commercial land.

(2) Secured by second mortgages on single family housing, recreational vehicles, and autos.

(3) Secured by business equipment primarily related to the farming and trucking industries.

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The following table summarizes the average recorded investment and interest income recognized on loans individually evaluated for impairment under previously applicable GAAP during the three and nine-month periods ended September 30, 2022:

(Dollars in thousands)	For the Three Months Ended September 30, 2022		For the Nine Months Ended September 30, 2022	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:				
Single family	\$ 584	1	454	
Commercial real estate:				
Other	180	5	183	
Consumer	304	2	346	
Loans with an allowance recorded:				
Single family	65	0	75	
Commercial real estate:				
Other	1,643	0	2,555	
Consumer	157	0	151	
Commercial business	323	0	165	

Total:				
Single family	649	1	529	
Commercial real estate:				
Other	1,823	5	2,738	
Consumer	461	2	497	
Commercial business	323	0	165	
Total	\$ 3,256	8	3,929	2

At September 30, 2023 2024 and December 31, 2022, 2023:

(Dollars in thousands)	March 31, 2024			December 31, 2023		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Loans with no related allowance recorded:						
Single family	\$ 744	744	0	758	758	0
Commercial real estate:						
Other	636	636	0	668	668	0
Consumer	269	269	0	306	306	0
Commercial business	22	22	0	0	0	0
Loans with an allowance recorded:						
Single family	214	214	26	221	221	28
Consumer	113	113	97	119	119	103
Commercial business	1,262	1,596	296	2,212	2,546	297
Total:						
Single family	958	958	26	979	979	28
Commercial real estate:						
Other(1)	636	636	0	668	668	0
Consumer(2)	382	382	97	425	425	103
Commercial business(3)	1,284	1,618	296	2,212	2,546	297
	\$ 3,260	3,594	419	4,284	4,618	428

(1) Secured by commercial land.

(2) Secured by second mortgages on single family housing and autos.

(3) Secured by business equipment.

At March 31, 2024 and December 31, 2023, non-accruing loans totaled \$1.1 million \$2.8 million and \$1.9 million \$3.8 million, respectively, for which the related allowance for credit losses was \$0.2 million at the end of \$0.4 million for both periods. All of the interest income recognized for non-accruing loans was recognized using the cash basis method of income recognition. Non-accruing loans for which no specific allowance has been recorded because management determined that the value of the collateral was sufficient to repay the loan totaled \$0.7 million \$1.2 million and \$1.0 million \$1.3 million at September 30, 2023 March 31, 2024 and December 31, 2022, 2023, respectively.

The non-accrual loans at September 30, 2023 March 31, 2024 and December 31, 2022 2023 are summarized as follows:

(Dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Single family	\$ 638	\$ 908	\$ 742	\$ 762
Commercial real estate:				
Other			462	493

Consumer	408	441	334	376
Commercial business	35	529	1,262	2,187
	<u>\$ 1,081</u>	<u>\$ 1,878</u>	<u>\$ 2,800</u>	<u>\$ 3,818</u>

The reduction in non-performing assets during the first quarter of 2024 was primarily related to \$0.8 million of principal payments received on a non-performing loan relationship in the agriculture industry. There were ~~not~~ two loans secured by single family homes totaling less than \$0.1 million in process of foreclosure at March 31, 2024 and no loans ~~that were~~ secured by single family homes in the process of foreclosure at ~~September 30, 2023~~ and there were \$0.2 million at December 31, ~~2022~~, 2023.

The Company adopted ASU 2022-02, accounts for loan modifications in accordance with the guidance in *Financial Instruments-Credit Losses (Topic Accounting Standards Codification (ASC) Topic 326): Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023. The amendments in this ASU were applied prospectively, and therefore, loan modification and charge off information is provided for only those items occurring after the January 1, 2023 adoption date.

. Based on the guidance, in ASU 2022-02, a loan modification or refinancing results in a new loan if the terms of the new loan are at least as favorable to the lender as the terms with customers with similar collection risks that are not refinancing or restructuring their loans and the modification to the terms of the loan are more than minor. If a loan modification or refinancing does not result in a new loan, it is classified as a loan modification.

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~~There are~~ The Company had no loan modifications to borrowers experiencing financial difficulties in the first quarter of 2024 or 2023. At March 31, 2024, there were no commitments to lend additional ~~disclosures for modification of loans with funds to~~ borrowers experiencing financial difficulty whose loan terms have been previously restructured. During the quarter ended March 31, 2024, there were no defaults on loans that ~~result in a direct change in the timing or amount of contractual cash flows~~. The disclosures are applicable to situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, or a combination of any of these items. If the Company modifies any loans to borrowers in financial distress that involves principal forgiveness, the amount of principal that is forgiven is charged off against the ACL. The Company made two loan modifications in ~~had been modified during the third 12 months ended quarter of 2023~~ March 31, 2024 ~~to~~ for borrowers experiencing financial difficulty. These modifications involved extending the loans for periods longer than our loan policy dictates. There was ~~no principal forgiveness or concession made on the interest rates~~. The amount of these modifications outstanding at September 30, 2023 was not material.

(10) Intangible Assets

The Company's intangible assets consist of goodwill and mortgage servicing rights. A summary of mortgage servicing rights activity is as follows:

<i>(Dollars in thousands)</i>	Nine Months Ended September 30, 2023	Twelve Months Ended December 31, 2022	Nine Month Ended September 30, 2022	Three Months Ended March 31, 2024	Twelve Months Ended December 31, 2023	Three Months Ended March 31, 2023
Balance, beginning of period	\$ 2,986	3,280	3,280	\$ 2,709	2,986	2,986
Originations	417	615	532	130	555	91
Amortization	(623)	(909)	(695)	(208)	(832)	(199)
Balance, end of period	<u>\$ 2,780</u>	<u>2,986</u>	<u>3,117</u>	<u>\$ 2,631</u>	<u>2,709</u>	<u>2,878</u>
Fair value of mortgage servicing rights	<u>\$ 6,624</u>	<u>6,344</u>	<u>6,249</u>	<u>\$ 6,536</u>	<u>6,539</u>	<u>6,414</u>

All of the loans sold where the Company continues to service the loans are serviced for FNMA under the individual loan sale program. The following is a summary of the risk characteristics of the loans being serviced for FNMA at ~~September 30, 2023~~: March 31, 2024:

<i>(Dollars in thousands)</i>	Loan Principal Balance	Weighted Average Interest Rate	Weighted Average Remaining Term (months)	Number of Loans	Loan Principal Balance	Weighted Average Interest Rate	Weighted Average Remaining Term (months)	Number of Loans
Original term 15 year fixed rate	\$ 96,365	2.92 %	129	969	\$ 88,613	2.93 %	124	921
Original term 30 year fixed rate	438,060	3.78	304	2,702	445,698	3.93	302	2,662

Amortization expense for intangible assets was \$0.6 million and \$0.7 million \$0.2 million for the nine three month periods ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The gross carrying amount of intangible assets and the associated accumulated amortization at September 30, 2023 March 31, 2024 and December 31, 2022 2023 is presented in the following table.

	September 30, 2023					
	Gross Carrying Amount	Accumulated Amortization	Unamortized Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Unamortized Intangible Assets
<i>(Dollars in thousands)</i>						
March 31, 2024						
Mortgage servicing rights	\$ 6,174	(3,394)	2,780	\$ 6,288	(3,657)	2,631
Goodwill	802	0	802	802	0	802
Total	\$ 6,976	(3,394)	3,582	\$ 7,090	(3,657)	3,433
December 31, 2023						
Mortgage servicing rights				\$ 6,226	(3,517)	2,709
Goodwill				802	0	802
Total				\$ 7,028	(3,517)	3,511

	December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Unamortized Intangible Assets
<i>(Dollars in thousands)</i>			
Mortgage servicing rights	\$ 5,995	(3,009)	2
Core deposit intangible	574	(574)	
Goodwill	802	0	
Total	\$ 7,371	(3,583)	3

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The following table indicates the estimated future amortization expense for mortgage servicing rights:

<i>(Dollars in thousands)</i>	Mortgage Servicing Rights	Mortgage Servicing Rights
Year ending December 31,		
2023	\$ 185	
2024	709	\$ 550
2025	644	672
2026	550	580
2027	380	411
2028		234
Thereafter	312	184
Total	\$ 2,780	\$ 2,631

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The projection Projections of amortization is are based on existing asset balances and the existing interest rate environment as of September 30, 2023 March 31, 2024. The Company's actual experience may be significantly different depending upon changes in mortgage interest rates and other market conditions.

No amortization expense relating to goodwill is recorded as GAAP does not allow goodwill to be amortized but requires that it be tested for impairment at least annually, or sooner, if there are indications that impairment may exist.

Goodwill was tested for impairment at **September 30, 2023** **March 31, 2024** due to the Company's stock price being less than its book value and the Company determined that it was not permanently impaired and no write down was required.

(11) Leases

The Company accounts for its leases in accordance with *ASC Topic 842*. Operating lease right-of-use assets represent the Company's right to use an underlying asset during the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. Right-of-use assets and operating lease liabilities are recognized at lease commencement **date** based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the lease commencement date. Because the Company only has operating leases and the right-of-use asset is offset by a lease payment obligation liability, the lease payments are the only amount that is recorded in occupancy expense in the consolidated statements of comprehensive **income (loss). income.**

The Company's leases relate to office space and bank branches with remaining lease terms between **eleven** **5** and **fifty** **44** months. Certain leases contain extension options which typically range from three to ten years. Because these extension options are not considered reasonably certain of exercise, they are not included in the lease term. As of **September 30, 2023** **March 31, 2024**, a **\$0.4 million** **\$0.3 million** right-of-use asset and an offsetting lease payment obligation liability were recorded on the consolidated balance sheet in other assets and other liabilities, respectively. Operating lease costs were \$0.1 million for the three-month periods **and \$0.2 million for the nine-month periods ended** **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively.

The table below summarizes other information related to the Company's operating leases:

		Three Months Ended September 30,		Nine Months Ended September 30,			
(Dollars in thousands)		2023	2022	2023	2022	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash paid for amounts included in the measurement of lease liabilities:							
Operating cash flows from operating leases		\$ 55	57	165	172	\$ 58	55
Weighted-average remaining lease term – operating leases, in years		2.2	3.0	2.2	3.0	1.9	2.6
Weighted-average discount rate – operating leases		2.69%	2.63%	2.69%	2.63%	2.75%	2.66%

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The table below summarizes the maturity of remaining lease liabilities at **September 30, 2023**; **March 31, 2024**:

<i>(Dollars in thousands)</i>	September 30, 2023	March 31, 2024
2023	\$ 59	
2024	212	\$ 154
2025	58	58
2026	27	27
2027	25	25
2028		0
Thereafter		0
Total lease payments	381	264
Less: Interest	(12)	(8)
Present value of lease liabilities	\$ 369	\$ 256

(12) Earnings per Common Share

The following table reconciles the weighted average shares outstanding and the earnings available to common stockholders used for basic and diluted earnings per common share:

					Three Months Ended	
	Three Months Ended		Nine Months Ended		March 31,	March 31,
	September 30,		September 30,		2024	2023
(Dollars in thousands, except per share data)	2023	2022	2023	2022	2024	2023
Weighted average number of common shares outstanding used in basic earnings per common share calculation	4,355,613	4,348,444	4,347,166	4,366,672	4,343,720	4,338,922
Net dilutive effect of:						
Restricted stock awards and options	26,843	30,652	27,865	32,651	26,324	29,112
Weighted average number of shares outstanding adjusted for effect of dilutive securities	4,382,456	4,379,096	4,375,031	4,399,323	4,370,044	4,368,034
Income available to common stockholders	\$ 1,498	1,831	4,553	5,607	\$ 1,318	1,634
Basic earnings per common share	\$ 0.34	0.42	1.05	1.28	\$ 0.30	0.38
Diluted earnings per common share	\$ 0.34	0.42	1.04	1.27	\$ 0.30	0.37

(13) Regulatory Capital and Oversight

The Bank is subject to the Basel III regulatory capital requirements. The Basel III requirements, among other things, (i) apply a set of capital requirements to the Bank, including requirements relating to common equity as a component of core capital, (ii) implement a “capital conservation buffer” against risk and a higher minimum Tier 1 capital requirement, and (iii) set forth rules for calculating risk-weighted assets for purposes of such requirements. The rules also made corresponding revisions to the prompt corrective action framework and include capital ratios and buffer requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Board of Governors of the Federal Reserve Bank in its Small Bank Holding Company Policy Statement (Policy Statement) has exempted small bank holding companies with assets less than \$3 billion from the above capital requirements. The Policy Statement also includes savings and loan holding companies that meet the Policy Statement's qualitative requirements for exemption. The Company currently meets the qualitative exemption requirements, and therefore, is exempt from the above capital requirements.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table and defined in the regulation) of common equity Tier 1 capital to risk-weighted assets, Tier 1 capital to adjusted total assets, Tier 1 capital to risk-weighted assets and total capital to risk-weighted assets.

The Bank's average total assets and adjusted total assets for the **third first** quarter of **2023 2024** were both \$1.1 billion and its risk-weighted assets were **\$920.5 million \$905.7 million**. The following table presents the Bank's capital amounts and ratios at **September 30, 2023 March 31, 2024** for actual capital, required capital and excess capital, including ratios in order to qualify as being well capitalized under the prompt corrective actions regulations.

							To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		Required to be Adequately Capitalized		Excess Capital			
	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)
(Dollars in thousands)								
March 31, 2024								
Common equity Tier 1 capital	\$ 105,437	11.64 %	\$ 40,757	4.50 %	64,680	7.14 %	58,872	6.50 %
Tier 1 leverage	105,437	9.18	45,957	4.00	59,480	5.18	57,446	5.00

Tier 1 risk-based capital	105,437	11.64	54,343	6.00	51,094	5.64	72,458	8.00
Total risk-based capital	116,762	12.89	72,458	8.00	44,304	4.89	90,572	10.00

(1) Based upon the Bank's adjusted total assets for the purpose of the Tier 1 leverage capital ratio and risk-weighted assets for the purpose of the risk-based capital ratios.

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	Actual		Required to be Adequately Capitalized		Excess Capital		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)
(Dollars in thousands)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)
September 30, 2023								
Common equity Tier 1 capital	\$ 102,309	11.11 %	\$ 41,421	4.50 %	\$ 60,888	6.61 %	\$ 59,830	6.50 %
Tier 1 leverage	102,309	8.93	45,827	4.00	56,482	4.93	57,284	5.00
Tier 1 risk-based capital	102,309	11.11	55,228	6.00	47,081	5.11	73,637	8.00
Total risk-based capital	113,821	12.37	73,637	8.00	40,184	4.37	92,047	10.00

(1) Based upon the Bank's adjusted total assets for the purpose of the Tier 1 leverage capital ratio and risk-weighted assets for the purpose of the risk-based capital ratios.

The Bank must maintain a capital conservation buffer of 2.50% composed of common equity Tier 1 capital above its minimum risk-based capital requirements in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. Management believes that, as of **September 30, 2023, March 31, 2024**, the Bank's capital ratios were in excess of those quantitative capital ratio standards set forth under the current prompt corrective action regulations, including the capital conservation buffer described above. However, there can be no assurance that the Bank will continue to maintain such status in the future. The Office of the Comptroller of the Currency has extensive discretion in its supervisory and enforcement activities and can adjust the requirement to be well-capitalized in the future.

(14) Stockholders' Equity

The Company did not repurchase any shares of its common stock in the open market during the first **nine months quarter of 2023, 2024**. At **September 30, 2023, March 31, 2024**, the Company was authorized to repurchase **up to \$6.0 million \$5.4 million** of its common stock under the existing share repurchase program. The Company declared a quarterly **cash** dividend of **68** cents per share of common stock outstanding that was paid to stockholders on **March 8, 2023**. Additionally, **quarterly dividends of 8 cents per share of common stock outstanding were paid to stockholders on June 7, 2023 and September 7, 2023, 6, 2024**.

(15) Commitments and Contingencies

The Bank issues standby letters of credit which guarantee the performance of customers to third parties. The standby letters of credit issued and available at **September 30, 2023 March 31, 2024** were approximately **\$10.3 million \$7.0 million**, expire over the next **twenty-seven twenty-two** months, and are collateralized primarily with commercial real estate mortgages. Since the conditions under which the Bank is required to fund the standby letters of credit may not materialize, the cash requirements are expected to be less than the total outstanding commitments.

From time to time, the Company is party to legal proceedings arising out of its lending and deposit operations. The Company is, and expects to become, engaged in foreclosure proceedings, collection actions, and other litigation as part of its normal banking activities. The Company examines each legal matter, and, in those situations where it determines that a particular legal matter presents loss contingencies that are both probable and reasonably estimable, establishes an appropriate accrual. In many situations, the Company is not able to estimate reasonably possible losses due to the preliminary nature of the legal matter, as well as a variety of other factors and uncertainties. Based on the Company's current understanding of all of the outstanding legal matters, management does not believe that judgments or settlements arising from any pending or threatened litigation, individually or in the aggregate, would have a material adverse effect on the consolidated financial condition or results of operations.

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(16) Business Segments

The Bank has been identified as a reportable operating segment in accordance with the provisions of ASC 280. HMN, the holding company, did not meet the quantitative thresholds for a reportable segment and therefore is included in the "Other" category.

The Company evaluates performance and allocates resources based on the segment's net income, return on average assets and return on average equity. Each corporation is managed separately with its own officers and board of directors. The following table sets forth certain information about the reconciliations of reported profit and assets for each of the Company's reportable segments.

<i>(Dollars in thousands)</i>	Home Federal Savings Bank	Other	Eliminations	Consolidated Total	Home Federal Savings Bank	Other	Eliminations	Consolidated Total
At or for the nine months ended September 30, 2023:								
Interest income – external customers	\$ 31,937	0	0	31,937				
Non-interest income – external customers	6,086	0	0	6,086				
At or for the quarter ended March 31, 2024:								
Interest income - external customers					\$ 11,999	0	0	11,999
Non-interest income - external customers					1,907	0	0	1,907
Intersegment interest income	0	228	(228)	0	0	88	(88)	0
Intersegment non-interest income	201	4,889	(5,090)	0	71	1,432	(1,503)	0
Interest expense	8,571	0	(228)	8,343	4,831	0	(88)	4,743
Provision for credit losses	566	0	0	566	(209)	0	0	(209)
Non-interest expense	21,981	651	(201)	22,431	7,389	233	(71)	7,551
Income tax expense (benefit)	2,217	(87)	0	2,130	534	(31)	0	503
Net income	4,889	4,553	(4,889)	4,553	1,432	1,318	(1,432)	1,318
Total assets	1,154,015	101,855	(101,700)	1,154,171	1,151,160	108,945	(108,890)	1,151,215
At or for the nine months ended September 30, 2022:								
Interest income – external customers	\$ 24,253	0	0	24,253				
Non-interest income – external customers	6,945	0	0	6,945				
Intersegment interest income	0	27	(27)	0				
Intersegment non-interest income	176	6,052	(6,228)	0				
Interest expense	942	0	(27)	915				
Provision for loan losses	941	0	0	941				
Non-interest expense	20,972	613	(176)	21,409				
Income tax expense (benefit)	2,467	(141)	0	2,326				
Net income	6,052	5,607	(6,052)	5,607				
Total assets	1,046,983	89,817	(89,007)	1,047,793				
At or for the quarter ended September 30, 2023:								
Interest income – external customers	\$ 11,527	0	0	11,527				
Non-interest income – external customers	2,184	0	0	2,184				
At or for the quarter ended March 31, 2023:								
Interest income - external customers					\$ 9,913	0	0	9,913
Non-interest income - external customers					1,928	0	0	1,928
Intersegment interest income	0	88	(88)	0	0	64	(64)	0
Intersegment non-interest income	71	1,602	(1,673)	0	58	1,748	(1,806)	0
Interest expense	3,812	0	(88)	3,724	1,914	0	(64)	1,850
Provision for credit losses	318	0	0	318	(8)	0	0	(8)
Non-interest expense	7,134	218	(71)	7,281	7,542	209	(58)	7,693
Income tax expense (benefit)	916	(26)	0	890	703	(31)	0	672
Net income	1,602	1,498	(1,602)	1,498	1,748	1,634	(1,748)	1,634
Total assets	1,154,015	101,855	(101,700)	1,154,171	1,071,577	100,231	(100,226)	1,071,582

At or for the quarter ended September 30,
2022:

Interest income – external customers	\$ 8,631	0	0	8,631
Non-interest income – external customers	2,054	0	0	2,054
Intersegment interest income	0	10	(10)	0
Intersegment non-interest income	59	1,981	(2,040)	0
Interest expense	350	0	(10)	340
Provision for loan losses	579	0	0	579
Non-interest expense	7,025	208	(59)	7,174
Income tax expense (benefit)	809	(48)	0	761
Net income	1,981	1,831	(1,981)	1,831
Total assets	1,046,983	89,817	(89,007)	1,047,793

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Item 2: HMN FINANCIAL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Information

Safe Harbor Statement

This quarterly report on Form 10-Q and other reports filed by HMN Financial, Inc (HMN or the Company) with the Securities and Exchange Commission (SEC), may contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are often identified by such forward-looking terminology as “anticipate,” “continue,” “could,” “expect,” “future,” “may,” “optimistic,” “project” and “will,” or similar statements or variations of such terms and include, but are not limited to, those relating to: enacted and expected changes to the federal funds rate and the resulting impacts on consumer deposits, loan originations, net interest margin, net interest income and related aspects of the Home Federal Savings Bank’s (the Bank) business; the anticipated impacts of inflation and rising interest rates on the general economy, the Bank’s clients, and the allowance for credit losses; perceived improvements in the forecasted economic conditions; anticipated future levels of the provision for credit losses; anticipated level of future asset growth; anticipated ability to maintain and grow core deposit relationships; anticipated call dates of callable investments owned; anticipated impact of tax law changes on future taxable state income; anticipated level of future core deposit growth; and the payment of dividends by HMN.

A number of factors, many of which may be amplified by deterioration in economic conditions, could cause actual results to differ materially from the Company’s assumptions and expectations. These include but are not limited to the adequacy and marketability of real estate and other collateral securing loans to borrowers; federal and state regulation and enforcement; possible legislative and regulatory changes, including changes to regulatory capital rules; the ability of the Bank to comply with other applicable regulatory capital requirements; enforcement activity of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Minneapolis in the event of non-compliance with any applicable regulatory standard or requirement; adverse economic, business and competitive developments such as shrinking interest margins, reduced collateral values, deposit outflows, changes in credit or other risks posed by the Company’s loan and investment portfolios; changes in costs associated with traditional and alternate funding sources, including changes in collateral advance rates and policies of the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank; technological, computer-related or operational difficulties including those from any third party cyberattack; reduced demand for financial services and loan products; adverse developments affecting the financial services industry, such as recent bank failures or concerns involving liquidity; changes in accounting policies and guidelines, or monetary and fiscal policies of the federal government or tax laws; domestic and international economic developments; the Company’s access to and adverse changes in securities markets; the market for credit related assets; the future operating results, financial condition, cash flow requirements and capital spending priorities of the Company and the Bank; the availability of internal and, as required, external sources of funding; the Company’s ability to attract and retain employees; or other significant uncertainties. Additional factors that may cause actual results to differ from the Company’s assumptions and expectations include those set forth in the “Risk Factors” section of the Company’s Annual Report on Form 10-K 10-K/A for the year ended December 31, 2022 and Part II, Item 1A of its subsequently filed quarterly reports on Form 10-Q, December 31, 2023. All forward-looking statements are qualified by, and should be considered in conjunction with, such cautionary statements. All statements in this quarterly report on Form 10-Q, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no duty to update any of the forward-looking statements after the date of this quarterly report on Form 10-Q.

General

HMN is the stock savings bank holding company for the Bank, which operates community banking and loan production offices in Minnesota, Iowa and Wisconsin. The earnings of the Company are primarily dependent on the Bank's net interest income, which is the difference between interest earned on loans and investments, and the interest paid on interest-bearing liabilities such as deposits and other borrowings. The difference between the average rate of interest earned on assets and the average rate paid on liabilities is the interest rate spread. Net interest income is produced when interest-earning assets equal or exceed interest-bearing liabilities and there is a positive interest rate spread. Net interest income and net interest rate spread are affected by changes in interest rates, the volume and composition of interest-earning assets and interest-bearing liabilities, and the level of non-performing assets. The Company's net earnings are also affected by the generation of non-interest income, which consists primarily of gains from the sale of loans, fees for servicing loans, commissions on the sale of uninsured investment products, and service charges on deposit accounts. The Bank incurs expenses in addition to interest expense in the form of compensation and benefits, occupancy and equipment expenses, provisions for credit losses, data processing costs, professional services, deposit insurance, amortization expense on mortgage servicing assets, advertising expenses, and income taxes. The earnings of financial institutions, such as the Bank, are also significantly affected by prevailing economic and competitive conditions, particularly changes in interest rates, government monetary and fiscal policies, and regulations of various regulatory authorities. Lending activities are influenced by the demand for and supply of business credit, single family and commercial properties, competition among lenders, the level of interest rates and the availability of funds. Deposit flows and costs of deposits are influenced by prevailing market rates of interest on competing investments, account maturities and the levels of personal income and savings.

Critical Accounting Estimates

While our significant accounting policies are described in the notes to our consolidated financial statements, we believe the following discussion addresses our most critical accounting estimates, which are those estimates made in accordance with U.S. **Generally Accepted Accounting Principles** (GAAP) that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations. The Company has identified the following critical accounting estimates that management believes involve the most difficult, subjective, and/or complex judgments that are inherently uncertain. Therefore, actual financial results could differ significantly depending upon the estimates, assumptions and other factors used.

Allowance for Credit Losses and Related Provision

The Company **adopted Accounting Standards Update (ASU) 2016-13, accounts for its allowance for credit losses and the related provision in accordance with Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ASC 326 on January 1, 2023.** Under ASU 2016-13, and the allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are **also** not included in the collective evaluations. The collective reserve amount is assessed based on size and risk characteristics of the various portfolio segments, past loss history and other adjustments determined to have a potential impact on future credit losses.

The Company has a standardized process to determine the appropriateness of the credit loss allowance for the commercial real estate, commercial business, single family, and consumer loan portfolios. The determination of the allowance for each of these portfolios is calculated on a pooled basis with individual determination of the allowance for all non-performing loans. The determination of the quantitative pooled loan reserves for the commercial real estate and commercial business loan portfolios involves analyzing prior year losses by their assigned standardized risk ratings and applying these historic loss factors to the loans in the current portfolio with similar risk rating. This process is referred to as a **vintage loss analysis**. **Vintage Loss Analysis**. The determination of the quantitative pooled loan reserves for the single family and consumer loan portfolios involves analyzing prior year losses based on certain loan and borrower risk characteristics when the loans were originated and applying these historic loss factors to the loans in the current portfolio with similar risk characteristics. Qualitative reserves are also established and reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The determination of the qualitative reserves for all of the loan categories involves an analysis and consideration of certain factors that are anticipated to have an impact on future credit losses including, but not limited to: actual and anticipated changes in the size, composition, and concentrations of the loan portfolios; national, regional, and local economic conditions including inflation and unemployment data; loan delinquencies; the scope and results of loan quality reviews; level of non-accrual loans, and risk rating trends; lending policies, procedures, and staffing; and the demand for single family homes, commercial real estate, and building lots.

The appropriateness of the allowance for credit losses on individually reviewed collateral dependent loans is dependent upon management's estimates of variables affecting valuation, appraisals of collateral, evaluations of performance and status and the amounts and timing of future cash flows expected to be received on **non-performing collateral dependent** loans. Such estimates, appraisals, evaluations, and cash flows may be subject to adjustments due to changing economic prospects of borrowers or properties. The fair market value of collateral dependent loans is typically based on the appraised value of the property less estimated selling costs. The estimates are reviewed periodically, and any adjustments are recorded in the provision for credit losses in the periods in which the adjustments become known and loans are charged off to the extent they are deemed to be uncollectible. Because of the size of some loans, changes in estimates can have a significant impact on the **provision for credit loss provision, losses**. The Company increases its allowance for credit losses by charging the provision for credit losses against income and by receiving recoveries of previously charged off loans. The Company decreases its allowance by crediting the provision for credit losses and recording loan charge-offs. The methodology for establishing the allowance for credit losses takes into consideration probable losses that have been identified in connection with the loans individually reviewed as well as the expected losses in each identified pool of loans that have not been individually reviewed. Although management believes that based on current conditions the allowance for credit losses is maintained at an appropriate amount to provide for the expected loan losses in the portfolio as of the

balance sheet dates, future conditions may differ substantially from those anticipated in determining the allowance for credit losses and adjustments may be required in the future. See "Note 3 - New Accounting Pronouncements" in the Notes to Consolidated Financial Statements for further information on the impact to the Company's financial statements when ASU 2016-13 was adopted on January 1, 2023.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax assets and liabilities.

The Company maintains significant net deferred tax assets for deductible temporary differences, the two largest relating to the net unrealized losses on securities available for sale and the allowance for credit losses. For tax purposes, the net unrealized losses on securities available for sale are not recognized unless the securities are sold and the loss becomes realized. For book purposes, the unrealized losses, net of income taxes, are reported as a separate component of stockholders' equity until realized. For the allowance for credit losses, only the net charge-offs are deductible for taxes, while the entire provision for credit losses is used to determine book income. A deferred tax asset for both of these items is created because of the timing difference of when the expense is recognized for book and tax purposes. Under GAAP, a valuation allowance is required to be recognized if it is "more likely than not" that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon management's judgment and evaluation of both positive and negative evidence, including the forecasts of future income, tax planning strategies, and assessments of the current and future economic and business conditions. The positive evidence considered includes the Company's cumulative net income in the prior three-year period, the ability to implement tax planning strategies to accelerate taxable income recognition, and the probability that taxable income will be generated in future periods. The only negative evidence that the Company identified was related to a change in Wisconsin state tax law that was enacted in the third quarter of 2023. The law change allows financial institutions to exempt claim an exemption from state taxation loan income from loans of \$5 million or less where the borrower resides or is located in Wisconsin. The law change is anticipated to substantially reduce the Company's effective state income tax rate in Wisconsin, which is expected to reduce the Company's Wisconsin state income tax expense in future periods. A valuation allowance was has been recorded in the third quarter of 2023 to reflect the anticipated reduction in the Company's ability to recognize future Wisconsin state tax benefits when the timing differences reverse on the previously recorded deferred tax assets. It is possible that future conditions may differ substantially from those anticipated in determining that a valuation allowance was is required on deferred tax assets and adjustments may be required in the future.

Determining the ultimate settlement of any tax position requires significant estimates and judgments in arriving at the amount of tax benefits to be recognized in the financial statements. It is possible that the tax benefits realized upon the ultimate resolution of a tax position may result in tax benefits that are significantly different from those estimated.

RESULTS OF OPERATIONS FOR THE THREE AND NINE-MONTH PERIODS QUARTER ENDED SEPTEMBER 30, 2023 MARCH 31, 2024 COMPARED TO THE SAME PERIODS QUARTER ENDED SEPTEMBER 30, 2022 MARCH 31, 2023

Net Income

Net income was \$1.5 million \$1.3 million for the third first quarter of 2023, 2024, a decrease of \$0.3 million compared to net income of \$1.8 million \$1.6 million for the third first quarter of 2022, 2023. Diluted earnings per share for the third first quarter of 2023 were \$0.34, 2024 was \$0.30, a decrease of \$0.08 \$0.07 from diluted earnings per share of \$0.42 \$0.37 for the third first quarter of 2022. Net income for the quarter was negatively impacted by a \$0.5 million decrease in net interest income between the periods primarily because of a decrease in the net interest margin as a result of increased funding costs. Net income was also negatively impacted by a \$0.1 million increase in income tax expense because of a valuation reserve that was established on the deferred tax asset as a result of Wisconsin state tax law changes that were enacted during the quarter. These decreases in net income were partially offset by a \$0.3 million decrease in the provision for credit losses between the periods. Net income was \$4.6 million for the nine-month period ended September 30, 2023, a decrease of \$1.0 million, or 18.8%, compared to net income of \$5.6 million for the nine-month period ended September 30, 2022. Diluted earnings per share for the nine-month period ended September 30, 2023 was \$1.04, a decrease of \$0.23 per share compared to diluted earnings per share of \$1.27 for the same period in 2022, 2023. The decrease in net income between the periods was due primarily to a \$1.0 million \$0.8 million decrease in the gain on sales of loans net interest income because of a decrease decline in mortgage loan sales, the net interest margin as a \$0.9 million increase in compensation expense due primarily to annual salary increases, a \$0.4 million increase in other expenses primarily because result of an increase in FDIC insurance expense. These decreases funding costs increasing faster than the yields on interest earning assets. This decrease in net income were was partially offset by a \$0.3 million increase in net interest income due to an increase in interest rates and the amount of average interest earning assets outstanding, a \$0.3 million \$0.2 million decrease in the provision for credit losses and a \$0.3 million decrease in professional expenses due primarily to a decrease in legal fees and the general reserves as a \$0.2 million result of updating the historical vintage loan loss analysis during the quarter. Other non-interest expenses decreased \$0.1 million

primarily because of a decrease in income compensation and benefits expense due to a reduction in incentive accruals. Income tax expense also decreased \$0.2 million primarily because of the decrease in pre-tax income.

Net Interest Income

Net interest income was \$7.8 million \$7.3 million for the third first quarter of 2023, 2024, a decrease of \$0.5 million \$0.8 million, or 5.9% 10.0%, compared to \$8.3 million \$8.1 million for the third first quarter of 2022, 2023. Interest income was \$11.5 million \$12.0 million for the third first quarter of 2023, 2024, an increase of \$2.9 million \$2.1 million, or 33.6% 21.0%, from \$8.6 million \$9.9 million for the third first quarter of 2022, 2023. Interest income increased because of the \$51.4 million increase in the average interest-earning assets between the periods and also primarily because of the increase in the average yield earned on interest-earning assets between the periods. periods and also because of the \$50.3 million increase in the average interest-earning assets. The average yield earned on interest-earning assets was 4.15% 4.36% for the third first quarter of 2023, 2024, an increase of 89 56 basis points from 3.26% 3.80% for the third first quarter of 2022, 2023. The increase in the average yield is primarily related to the increase in market interest rates as a result of the 2.25% 5.00% increase in the prime interest rate between over the periods. past two years.

Interest expense was \$3.7 million \$4.7 million for the third first quarter of 2023, 2024, an increase of \$3.4 million \$2.8 million, or 995.3% 156.4%, compared to \$0.3 million \$1.9 million for the third first quarter of 2022, 2023. Interest expense increased primarily because of the increase in the average interest rate paid on interest-bearing liabilities between the periods. Interest expense also increased because of the \$45.3 million \$44.9 million increase in the average interest-bearing liabilities and non-interest bearing deposits between the periods. The average interest rate paid on interest-bearing liabilities and non-interest bearing deposits was 1.46% 1.88% for the third first quarter of 2023, 2024, an increase of 132 111 basis points from 0.14% 0.77% for the third first quarter of 2022, 2023. The increase in the average rate paid is primarily related to the change in the types of funding sources as more brokered deposits and certificates of deposit, and Federal Home Loan Bank (FHLB) advances deposits were used as funding sources in the first quarter of 2024 than were used in the third first quarter of 2023 than in the third quarter of 2022, 2023. These funding sources generally have higher interest rates than traditional checking and money market accounts. The increase in market interest rates as a result of the 2.25% 5.00% increase in the federal funds rate between over the periods past two years also contributed to the higher funding costs in the third first quarter of 2023 2024 when compared to the same period in 2022, 2023.

Net interest margin (net interest income divided by average interest-earning assets) for the third first quarter of 2023 2024 was 2.81% 2.63%, a decrease of 32 46 basis points, compared to 3.13% 3.09% for the third first quarter of 2022, 2023. The decrease in the net interest margin is primarily because the increase in the average rate paid on interest-bearing liabilities and non-interest bearing deposits exceeded the increase in the average yield earned on interest-earning assets between the periods.

Net interest income was \$23.6 million for the first nine months of 2023, an increase of \$0.3 million, or 1.10%, compared to \$23.3 million for the same period of 2022. Interest income was \$31.9 million for the first nine months of 2023, an increase of \$7.6 million, or 31.7%, from \$24.3 million for the first nine months of 2022. Interest income increased because of the \$56.0 million increase in the average interest-earning assets between the periods and also because of the increase in the average yield earned on interest-earning assets between the periods. The average yield earned on interest-earning assets was 3.97% for the first nine months of 2023, an increase of 79 basis points from 3.18% for the first nine months of 2022. The increase in the average yield is primarily related to the increase in market interest rates as a result of the 2.25% increase in the prime interest rate between the periods.

Interest expense was \$8.3 million for the first nine months of 2023, an increase of \$7.4 million, or 811.8%, compared to \$0.9 million for the same period of 2022. Interest expense increased primarily because of the increase in the average interest rate paid on interest-bearing liabilities between the periods. Interest expense also increased because of the \$48.4 million increase in the average interest-bearing liabilities and non-interest bearing deposits between the periods. The average interest rate paid on interest-bearing liabilities and non-interest bearing deposits was 1.13% for the first nine months of 2023, an increase of 100 basis points from 0.13% for the first nine months of 2022. The increase in the average rate paid is primarily related to the change in the types of funding sources used between the periods as more brokered deposits, certificates of deposits, and FHLB advances were used in the first nine months of 2023 than in the first nine months of 2022. These funding sources generally have interest rates that are higher than traditional checking and money market accounts. The increase in market interest rates as a result of the 2.25% increase in the federal funds rate between the periods also contributed to the higher funding costs in the first nine months of 2023 when compared to the same period in 2022.

Net interest margin (net interest income divided by average interest-earning assets) for the first nine months of 2023 was 2.93%, a decrease of 13 basis points, compared to 3.06% for the first nine months of 2022. The decrease in the net interest margin is primarily because the increase in the average rate paid on interest-bearing liabilities and non-interest bearing deposits exceeded the increase in the average yield earned on interest-earning assets as a result of the increase in the prime rate between the periods.

A summary of the Company's net interest margin for the three and nine-month three-month periods ended September 30, 2023 March 31, 2024 and 2022 2023 is as follows:

For the Three-Month Period Ended	
September 30, 2023	September 30, 2022

	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
<i>(Dollars in thousands)</i>						
Interest-earning assets:						
Securities available for sale	\$ 249,489	835	1.33 %	\$ 288,747	811	1.11
Loans held for sale	3,409	56	6.57	1,806	26	5.72
Single family loans, net	254,391	2,637	4.11	187,340	1,646	3.49
Commercial loans, net	537,587	7,099	5.24	465,192	5,270	4.49
Consumer loans, net	45,929	757	6.54	43,403	531	4.86
Other	11,114	143	5.10	64,022	347	2.15
Total interest-earning assets	1,101,919	11,527	4.15	1,050,510	8,631	3.26
Interest-bearing liabilities:						
Checking accounts	164,191	280	0.68	159,854	46	0.11
Savings accounts	111,623	27	0.10	126,427	19	0.06
Money market accounts	277,255	1,383	1.98	294,763	207	0.28
Retail certificate accounts	102,894	745	2.87	68,217	64	0.37
Wholesale certificate accounts	95,031	1,179	4.92	5,138	4	0.30
Customer escrows	656	4	2.00	0	0	0.00
Advances and other borrowings	7,804	106	5.40	0	0	0.00
Total interest-bearing liabilities	759,454			654,399		
Non-interest checking	248,076			309,616		
Other non-interest bearing liabilities	4,364			2,548		
Total interest-bearing liabilities and non-interest bearing deposits	\$ 1,011,894	3,724	1.46	\$ 966,563	340	0.14
Net interest income		\$ 7,803			\$ 8,291	
Net interest rate spread			2.69 %			3.12
Net interest margin			2.81 %			3.13

<i>(Dollars in thousands)</i>	For the Nine-Month Period Ended						For the three-month period ended March 31,					
	September 30, 2023			September 30, 2022			2024			2023		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
Interest-earning assets:												
Securities available for sale	\$ 259,050	2,430	1.25 %	\$ 294,394	2,415	1.10 %	\$ 229,901	923	1.61 %	\$ 268,684	795	1.20 %
Loans held for sale	2,173	103	6.38	2,820	91	4.32	1,853	29	6.21	1,216	18	6.04
Single family loans, net	229,364	6,782	3.95	177,842	4,593	3.45	264,791	2,877	4.37	208,127	1,951	3.80
Commercial loans, net	529,523	20,136	5.08	458,017	15,229	4.45	541,148	7,071	5.25	522,921	6,373	4.94
Consumer loans, net	46,411	2,150	6.19	42,010	1,476	4.70	41,502	709	6.87	45,784	661	5.85
Other	9,531	336	4.71	44,950	449	1.34	28,677	390	5.46	10,814	115	4.31
Total interest-earning assets	1,076,052	31,937	3.97	1,020,033	24,253	3.18	1,107,872	11,999	4.36	1,057,546	9,913	3.80
Interest-bearing liabilities:												

Checking accounts	165,265	721	0.58	158,665	126	0.11	144,848	306	0.85	161,708	188	0.47
Savings accounts	115,974	82	0.09	123,896	54	0.06	106,312	28	0.11	120,741	26	0.09
Money market accounts	267,767	3,087	1.54	271,005	497	0.25	272,014	1,580	2.34	258,768	655	1.03
Retail certificate accounts	89,521	1,441	2.15	73,581	222	0.40	134,195	1,349	4.03	75,938	223	1.19
Wholesale certificate accounts	73,144	2,635	4.82	5,264	11	0.28	116,422	1,477	5.09	61,048	711	4.72
Customer escrows	3,908	59	2.00	0	0	0.00	0	0	0.00	6,393	32	2.00
Advances and other borrowings	7,838	318	5.42	656	5	1.04	231	3	5.71	1,219	15	4.86
Total interest-bearing liabilities	723,417			633,067			774,022			685,815		
Non-interest checking	260,615			303,365			238,329			282,136		
Other non-interest bearing liabilities	3,284			2,511			2,898			2,423		
Total interest-bearing liabilities and non-interest bearing deposits	\$ 987,316	8,343	1.13	\$ 938,943	915	0.13	\$ 1,015,249	4,743	1.88	\$ 970,374	1,850	0.77
Net interest income		\$ 23,594			\$ 23,338			\$ 7,256			\$ 8,063	
Net interest rate spread			2.84%			3.05%			2.48%			3.03%
Net interest margin			2.93%			3.06%			2.63%			3.09%

Provision for Credit Losses

The provision for credit losses was (\$0.2) million for the first quarter of 2024, a decrease of \$0.2 million compared to the provision for credit losses in the first quarter of 2023. The provision for credit losses decreased in the first quarter of 2024 primarily because of a decrease in the general reserve percentages used to calculate the allowance for credit losses as a result of updating the annual historical vintage loan loss analysis during the quarter. The provision for credit losses was also reduced as a result of the reduction in the required qualitative reserves due to perceived improvements in the forecasted economic conditions. These reductions were partially offset by an increase in the provision as a result of an increase in the allowance for credit losses attributable to loan growth.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluations. The collective reserve amount is assessed based on the size and risk characteristics of the various portfolio segments, past loss history, and other adjustments determined to have a potential impact on future credit losses.

A reconciliation of the Company's allowance for credit losses on loans for the first quarters of 2024 and 2023 is summarized as follows:

(Dollars in thousands)	Three months ended March 31,	
	2024	2023
Balance at January 1,	\$ 11,824	
Adoption of Accounting Standard Update (ASU) 2016-13	0	
Provision	(208)	
Charge offs:		
Single family	(30)	
Recoveries	0	
Balance at March 31,	<u>\$ 11,586</u>	
Allocated to:		
Collective allowance	\$ 11,167	
Individual allowance	<u>419</u>	
	<u>\$ 11,586</u>	

On January 1, 2023, the Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The transition to this ASU resulted in a cumulative-effect adjustment to the allowance for credit losses of \$1.1 million, an increase in deferred tax assets of \$0.3 million, and a decrease to retained earnings of \$0.8 million as of the adoption date. In addition, a liability of \$0.1 million was established for projected future losses on unfunded commitments on outstanding lines of credit upon adoption.

The provision for credit losses was \$0.3 million for the third quarter of 2023, a decrease of \$0.3 million compared to \$0.6 million for the third quarter of 2022. The provision for credit losses decreased primarily because of the decrease in loan growth that was experienced in the third quarter of 2023 when compared to the same period in 2022. The provision for credit losses was \$0.6 million in the first nine months of 2023, a decrease of \$0.3 million compared to \$0.9 million for the first nine months of 2022. The provision for credit losses decreased between the periods primarily because the impact from the additional loan growth that was experienced in the first nine months of 2023 was less than it was for the same period in 2022.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluations. The collective reserve amount is assessed based on size and risk characteristics of the various portfolio segments, past loss history and other adjustments determined to have a potential impact on future credit losses. The collective reserve amount increased from June 30, 2023 primarily because of the loan growth that was experienced during the quarter. The Company's qualitative reserve amount also increased during the quarter as a result of the loan growth that was experienced and because of management's perception that forecasted economic conditions had slightly deteriorated during the quarter.

A reconciliation of the Company's allowance for credit losses for the three and nine month periods ended September 30, 2023 and 2022 is summarized as follows:

(Dollars in thousands)	2023	2022 (1)
Balance at June 30,	\$ 11,517	\$ 10,277
Provision	444	612
Charge offs:		
Commercial real estate	0	0
Consumer	0	0
Recoveries	6	35
Balance at September 30,	\$ 11,967	\$ 11,967
Allocated to:		
Collective allowance	\$ 11,803	\$ 11,803
Individual allowance	164	164
	\$ 11,967	\$ 11,967

(Dollars in thousands)	2023	2022
Balance at January 1,	\$ 10,277	\$ 10,277
Adoption of Accounting Standard Update (ASU) 2016-13	1,070	1,070
Provision	612	612
Charge offs:		
Consumer	(27)	0
Commercial real estate	0	0
Recoveries	35	35
Balance at September 30,	\$ 11,967	\$ 11,967

(1) The 2022 amounts presented are calculated under prior accounting standard.

The projected liability for unfunded commitments decreased \$0.1 million \$1,000 during both the third quarter and the first nine months quarter of 2023 2024 and increased \$24,000 during the provision for credit losses was decreased to reflect the change. A reconciliation first quarter of the Company's liability recorded for unfunded commitments for the three and nine month periods ended September 30, 2023 is summarized as follows: 2023.

(Dollars in thousands)	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Balance, beginning of period	\$ 166	0
Adoption of Accounting Standards Update (ASU) 2016-13	0	86
Provision	(126)	(46)

Balance, end of period	\$	40	40
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Non-Interest Income

Non-interest income was \$2.2 million \$1.9 million for the third first quarter of 2023, an increase of \$0.1 million, or 6.3%, from \$2.1 million 2024, the same as it was for the third first quarter of 2022. Other 2023. Fees and service charges decreased \$0.1 million between the periods due primarily to a decrease in overdraft fees collected as a result of changes to the Company's overdraft policy that were implemented in the first quarter of 2024. Loan servicing fees decreased slightly between the periods due to a decrease in the aggregate balances of commercial loans that were being serviced for others. Gain on sales of loans decreased slightly between the periods because of a decrease in the margin realized on loans sold in the secondary market between the periods. These decreases were partially offset by a \$0.1 million increase in other non-interest income increased \$0.1 million due primarily to an increase in the income earned on the sales of uninsured investment products between the periods. Gain on sales of loans increased slightly primarily because of an increase in the single family loans that were sold between the periods. Fees and service charges increased slightly between the periods due primarily to an increase in the commitment fees earned on unused commercial lines of credit. Loan servicing fees decreased slightly due to a decrease in the aggregate balances of single family loans that were being serviced for others as more serviced loans were paid off than were added to the servicing portfolio between the periods.

Non-interest income was \$6.1 million for the first nine months of 2023, a decrease of \$0.8 million, or 12.4%, from \$6.9 million for the first nine months of 2022. Gain on sales of loans decreased \$1.0 million between the periods because of a decrease in single family loan sales due primarily to an increase in the amount of originated mortgage loans that were placed into the loan portfolio. The increase in mortgage loans that were placed into the portfolio was the result of a targeted effort to originate loans to our executive banking clients. Loan servicing fees decreased slightly between the periods due to a decrease in the aggregate balances of single family loans that were being serviced for others. These decreases were partially offset by a \$0.1 million increase in fees and service charges between the periods due primarily to an increase in the commitment fees earned on unused commercial lines of credit. Other non-interest income increased \$0.1 million due primarily to an increase in the gains realized on equity securities between the periods.

Non-Interest Expense

Non-interest expense was \$7.3 million \$7.6 million for the third first quarter of 2023, an increase 2024, a decrease of \$0.1 million, or 1.5% 1.8%, from \$7.2 million \$7.7 million for the third first quarter of 2022. 2023. Compensation and benefits expense increased decreased \$0.1 million primarily because of annual salary increases and also because of a decrease reduction in the direct loan origination compensation costs that were deferred as a result of the reduced commercial loan production incentive accruals between the periods. Data processing expense increased \$0.1 million due to an increase in system processing charges between the periods. Other non-interest expense increased slightly between the periods primarily because of an increase in FDIC insurance expense due to an increase in assessment rates. These increases in non-interest expenses were partially offset by a \$0.1 million decrease in professional services between the periods primarily because of a decrease in legal expenses. Occupancy and equipment expense decreased slightly due primarily to a decrease in non-capitalized equipment costs between the periods.

Non-interest expense was \$22.4 million for the first nine months of 2023, an increase of \$1.0 million, or 4.8%, from \$21.4 million for the first nine months of 2022. Compensation and benefits expense increased \$0.9 million primarily because of annual salary increases and also because of a decrease in the direct loan origination compensation costs that were deferred as a result of the reduced commercial loan production between the periods. Other non-interest expense increased \$0.4 million primarily because of an increase in FDIC insurance expense due to an increase in assessment rates between the periods. Data processing expenses increased \$0.2 million between the periods primarily because of the change to an outsourced data processing relationship at the end of the first quarter of 2022. These increases in non-interest expense were partially offset by a \$0.3 million decrease in professional services expense between the periods primarily because of a decrease in legal expenses relating to a bankruptcy litigation claim that was settled in the first quarter of 2022. Occupancy and equipment expense decreased \$0.1 million due primarily to a decrease in non-capitalized software noncapitalized equipment costs between the periods. Other non-interest expense decreased slightly between the periods primarily because of a decrease in advertising costs. These decreases in non-interest expense were partially offset by a \$0.1 million increase in professional services expense between the periods primarily because of an increase in legal and other audit related expenses. Data processing expenses increased slightly between the periods primarily because of an increase in core, mobile and on-line banking charges.

Income Taxes

Income tax expense was \$0.9 million \$0.5 million for the third first quarter of 2023, an increase 2024, a decrease of \$0.1 million \$0.2 million from \$0.8 million \$0.7 million for the third first quarter of 2022. 2023. The increase decrease in income tax expense between the periods is primarily because of a valuation allowance that was established on our deferred tax asset as a result of Wisconsin state tax law changes that were enacted during the period. This increase in income tax expense was partially offset by a decrease in pre-tax income between the periods.

Income tax expense was \$2.1 million for the first nine months of 2023, a decrease of \$0.2 million from \$2.3 million for the first nine months of 2022. The decrease in income tax expense is the result of a decrease in pre-tax income between the periods. This decrease was partially offset by an increase in income tax expense because of a valuation allowance that was established on the deferred tax asset as a result of Wisconsin state tax law changes that were enacted during the period. income.

FINANCIAL CONDITION

Non-Performing Assets

The following table summarizes the amounts and categories of non-performing assets in the Bank's portfolio and loan delinquency information as of the end of the two most recently completed quarters and December 31, 2022, quarters.

	September 30, 2023	June 30, 2023	December 31, 2022
<i>(Dollars in thousands)</i>			
Non-performing loans:			
Single family	\$ 638	\$ 653	\$ 90
Consumer	408	407	44
Commercial business	35	471	52
Foreclosed and repossessed assets:			
Single family	0	220	
Total non-performing assets	\$ 1,081	\$ 1,751	\$ 1,87
Total as a percentage of total assets	0.09 %	0.16 %	0.1
Total as a percentage of total loans receivable	0.13 %	0.18 %	0.2
Allowance for credit losses to non-performing loans	1,106.53 %	752.44 %	547.2
Delinquency data:			
Delinquencies (1)			
30+ days	\$ 3,088	\$ 1,480	\$ 1,40
90+ days	0	0	
Delinquencies as a percentage of loan portfolio (1)			
30+ days	0.36 %	0.18 %	0.1
90+ days	0.00 %	0.00 %	0.0

(1) Excludes non-accrual loans.

The increase in delinquencies during the third quarter of 2023 is primarily related to a \$1.3 million loan relationship in the agricultural industry.

	March 31, 2024	December 3 2023
<i>(Dollars in thousands)</i>		
Non-performing loans:		
Single family	\$ 742	\$
Commercial real estate	462	
Consumer	334	
Commercial business	1,262	
Total non-performing assets	\$ 2,800	\$
Total as a percentage of total assets	0.24 %	
Total as a percentage of total loans receivable	0.32 %	
Allowance for credit losses to non-performing loans	413.78 %	
Delinquency data:		
Delinquencies (1)		
30+ days	\$ 1,632	\$
90+ days	0	
Delinquencies as a percentage of loan portfolio (1)		
30+ days	0.19 %	
90+ days	0.00 %	
(1) Excludes non-accrual loans.		

Total non-performing assets were \$ 1.1 million \$2.8 million at September 30, 2023, a decrease of \$0.7 million compared to \$1.8 million March 31, 2024 and \$3.8 million at June 30, 2023 and a decrease of \$0.8 million compared to \$1.9 million at December 31, 2022 December 31, 2023. The third reduction in non-performing assets during the quarter decrease is was primarily related to \$0.8 million of principal payments received on a commercial business non-performing loan that was reclassified to performing and a previously foreclosed single family property that was sold during the quarter. The decrease relationship in the first nine months of 2023 is related to a commercial business loan that was reclassified to performing and a previously classified non-performing single family property that was foreclosed and sold during the first nine months of 2023. agriculture industry.

Dividends

The Company declared a quarterly dividend of 8 cents per share of common stock outstanding that was paid on September 7, 2023 March 6, 2024. The declaration and amount of any future cash dividends remains subject to the sole discretion of the Board of Directors and will depend upon many factors, including the Company's results of operations, financial condition, capital requirements, regulatory and contractual restrictions, business strategy and other factors deemed relevant by the Board of Directors.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months quarter ended September 30, 2023 March 31, 2024, the net cash provided by operating activities was \$6.8 million \$1.9 million. The Company collected \$27.8 million \$8.4 million in principal repayments on securities, collected \$10.0 million on received proceeds from maturing securities that matured, purchased FHLB stock for \$7.4 million of \$15.0 million, purchased securities available for sale of \$9.9 million \$15.0 million, and received redemptions on FHLB stock of \$7.4 million. The Company had a net increase in deposit balances \$0.6 million, and purchased \$0.1 million of \$61.7 million premises and a decrease of equipment. Loans receivable increased \$13.5 million, deposits increased \$54.1 million, and customer escrows of \$5.5 million increased \$1.2 million during the first nine months of 2023. quarter. It also obtained \$0.1 million in treasury stock for the taxes payable on stock awards, paid dividends to stockholders of \$1.0 million, purchased \$0.5 million of premises and equipment, received proceeds from the sale of real estate and equipment of \$0.3 million, received proceeds from borrowings of \$180.1 million and repaid borrowings of \$180.1 million \$13.2 million. Loans receivable also increased \$79.2 million during the first nine months of 2023.

The Company has certificates of deposit with outstanding balances of \$149.6 million \$209.0 million that come due over the next twelve months which includes \$67.0 million in wholesale certificates. 12 months. Based upon past experience, management anticipates that the majority of the deposits will renew for another term. The Company believes that cash outflows from deposits that do not renew will be replaced with a combination of deposits from other customers, brokered customers' deposits or with FHLB advances. FRB Federal Reserve Bank of Minneapolis borrowings could also be used to fund unanticipated outflows of certificates of deposit. Unpledged securities could also be pledged and used as collateral for additional borrowings with the FHLB or Federal Reserve Bank of Minneapolis.

The Company had seven deposit customers each with aggregate deposits greater than \$5.0 million as of September 30, 2023 March 31, 2024. The \$125.0 million \$83.0 million in funds held by these customers may be withdrawn at any time. Management time, but management anticipates that approximately \$52.1 million the majority of these deposits will not be withdrawn from the Bank over the next twelve months based on discussions with certain of months. If these depositors. It deposits were withdrawn, it is anticipated that the majority of the deposits to be withdrawn will they would be replaced at least initially, with brokered deposits from other customers or brokers or with FHLB advances. FRB Federal Reserve Bank of Minneapolis borrowings could also be used to replace the anticipated unanticipated outflows of large checking and money market deposits.

The Company estimates that approximately 22.5% 25.6% of total deposits exceeded the Federal Deposit Insurance limit of \$250,000 at September 30, 2023 March 31, 2024. While these funds may be withdrawn at any time, management anticipates that the majority of these deposits will not be withdrawn from the Bank over the next twelve months. If these deposits were to be withdrawn, it is anticipated that they would be replaced with deposits from other customers brokered deposits, or brokers or with FHLB advances. FRB Federal Reserve Bank borrowings could also be used to replace unanticipated outflows of large checking and money market deposits.

The Company had the ability to borrow \$289.1 million \$296.8 million from the FHLB at September 30, 2023 March 31, 2024 based on the collateral value of the loans pledged. The credit policy of the FHLB relating to the collateral value of the loans collateralizing the available line of credit with the FHLB may change such that the current collateral pledged to secure future advances is no longer acceptable or the formulas for determining the excess pledged collateral may change. The FHLB could also reduce the amount of funds it will lend to the Bank. It is not anticipated that the Bank will need to find alternative funding sources in the next twelve months to replace the available borrowings from the FHLB. However, if needed, the Bank could borrow an additional \$91.3 million \$89.8 million from the Federal Reserve Bank of Minneapolis at March 31, 2024 based on the collateral value of the loans pledged at September 30, 2023. pledged. The Company also has the ability to pledge securities as collateral to increase the borrowing capacity of the Company by \$119.9 million. \$108.2.

The Company's primary source of cash is dividends from the Bank. At September 30, 2023 March 31, 2024, the Company had \$17.2 million \$15.9 million in cash. The primary use of cash by the Company is the payment of operating holding company level expenses the repurchase of Company stock, and including the payment of dividends to stockholders.

director and management fees, legal expenses and regulatory costs. The Company also serves as a source of capital, uses cash to repurchase stock and pay any declared dividends. The Company plans to continue to fund its liquidity and financial support to the Bank. Depending upon the operating performance of needs through

dividends from the Bank, and the Company's other liquidity and capital needs, including Company level expenses, the Company may find it prudent, subject to prevailing capital market conditions and other factors, to raise additional capital through issuance of its common stock or other equity securities. Additional capital would also potentially permit the Company to implement a strategy of growing Bank assets. Depending on the circumstances, if it were to raise capital, the Company may deploy it to the Bank for general banking purposes or may retain some or all of it for use by the Company.

If the Company were to raise capital through the issuance of additional shares of common stock or other equity securities, it would dilute the ownership interests of existing stockholders and could result in a change in control of the Company and the Bank. New investors may also have rights, preferences and privileges senior to the Company's current stockholders which may adversely impact the Company's current stockholders. The Company's ability to raise additional capital through the issuance of equity securities, if deemed prudent, will depend on, among other factors, conditions in the capital markets at that time, which are outside of its control. Accordingly, the Company may not be able to raise additional capital, if deemed prudent, on favorable economic terms or other terms acceptable to it, by obtaining external capital.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its investing, lending and deposit taking activities. Management actively monitors and manages its interest rate risk exposure.

The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact the Company's earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company monitors the projected changes in net interest income that occur if interest rates were to suddenly change up or down. The *Rate Shock Table* located in the following Asset/Liability Management section of this Management's Discussion and Analysis discloses the Company's projected changes in net interest income based upon immediate interest rate changes called rate shocks. The Company utilizes a model that uses the discounted cash flows from its interest-earning assets and its interest-bearing liabilities to calculate the current market value of those assets and liabilities. The model also calculates the changes in market value of the interest-earning assets and interest-bearing liabilities under different interest rate changes.

The following table discloses the projected changes in the market value of the Company's interest-earning assets and interest-bearing liabilities based upon incremental 100 basis-point changes in interest rates from interest rates in effect on **September 30, 2023** **March 31, 2024**.

(Dollars in thousands)	Market Value					Market Value				
	-200	-100	0	+100	+200	-200	-100	0	+100	+200
Basis point change in interest rates										
Total market-risk sensitive assets	\$ 1,113,060	1,088,140	1,064,358	1,039,105	1,014,838	\$ 1,118,358	1,092,797	1,067,118	1,043,259	1,018,879
Total market-risk sensitive liabilities	961,811	914,133	876,474	846,001	820,150	976,425	926,621	887,075	854,038	826,112
Off-balance sheet financial instruments	(14)	(1)	0	130	247	(11)	0	0	216	418
Net market risk	\$ 151,263	174,008	187,884	192,974	194,441	\$ 141,944	166,176	180,043	189,005	192,349
Percentage change from current market value	(19.49)%	(7.39)%	0.00%	2.71%	3.49%	(21.16)%	(7.70)%	0.00%	4.98%	6.84%

The preceding table was prepared utilizing a model using the following assumptions (the Model Assumptions) regarding prepayment and decay ratios that were determined by management based upon their review of historical prepayment speeds and future prepayment projections. Fixed rate loans were assumed to prepay at annual rates of between **3% 4% to 51% 57%**, depending on the note rate and the period to maturity. Adjustable rate mortgages (ARMs) were assumed to prepay at annual rates of between 7% and **42% 48%**, depending on the note rate and the period to maturity. Mortgage-backed securities were projected to have prepayments based upon the underlying collateral securing the instrument. Certificate accounts were assumed not to be withdrawn until maturity. Passbook accounts **and money were assumed to prepay at an annual rate of 1%. Money** market accounts were assumed to decay at an annual rate of **1% between 14% and 46%, respectively.** Retail checking accounts, commercial checking accounts and commercial money market accounts were assumed to decay at annual rates of 9%, 39% and 13%,

respectively. Callable investments were projected to be called at the first call date where the projected interest rate on similar remaining term instruments was less than the interest rate on the callable investment.

Certain shortcomings are inherent in the method of analysis presented in the above table. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. The model assumes that the difference between the current interest rate being earned or paid compared to a treasury instrument or other interest index with a similar term to maturity (the Interest Spread) will remain constant over the interest changes disclosed in the table. Changes in Interest Spread could impact projected market value changes. Certain assets, such as ARMs, have features which restrict changes in interest rates on a short-term basis and over the life of the assets. The market value of the interest-bearing assets that are approaching their lifetime interest rate caps could be different from the values disclosed in the table. Certain liabilities, such as certificates of deposit, have fixed rates that restrict interest rate changes until maturity. In the event of a change in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the foregoing table. The ability of many borrowers to service their debt may also decrease in the event of a substantial sustained increase in interest rates.

Asset/Liability Management

The Company's management reviews the impact that changing interest rates will have on the Company's net interest income projected for the next twelve months to determine if its current level of interest rate risk is acceptable. The following table projects the estimated impact on net interest income during the twelve-month period ending September 30, 2024 March 31, 2025 of immediate interest rate changes called rate shocks:

(Dollars in thousands)		
Rate Shock in Basis Points	Projected Change in Net	
	(Dollars in thousands)	
	Rate Shock in Basis Points	Projected Change in Net Interest Income
		Percentage Change
+200	\$ 291 (134)	(0.69)
+100	177 (42)	(0.69)
0	0	0.00
-100	(225) 142	(2.48)
-200	(809 517)	(1.54)

The preceding table was prepared utilizing the following Assumptions. Certain shortcomings are inherent in the method of analysis presented in the foregoing table. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. The model assumes that the difference between the current interest rate being earned or paid compared to a treasury instrument or other interest index with a similar term to maturity (the Interest Spread) will remain constant over the interest changes disclosed in the table. Changes in Interest Spread could impact projected market value changes. Certain assets, such as ARMs, have features which restrict changes in interest rates on a short-term basis and over the life of the assets. The market value of the interest-bearing assets that are approaching their lifetime interest rate caps could be different from the values disclosed in the table. Certain liabilities, such as certificates of deposit, have fixed rates that restrict interest rate changes until maturity. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the foregoing table. The ability of many borrowers to service their debt may also decrease in the event of a substantial increase in interest rates and could impact net interest income. The decrease in net interest income in a declining rising rate environment is primarily because there are more deposits than there are investments that would reprice to higher interest rates than there are investments that would reprice to lower interest rates than there are deposits that would be able to be repriced to the same extent higher in the next twelve months. The decrease in net interest income in a declining environment relates primarily to the decrease in net interest income on mortgage loans held in the portfolio.

In an attempt to manage its exposure to changes in interest rates, management closely monitors interest rate risk. The Bank has an Asset/Liability Committee that meets frequently to discuss changes in the interest rate risk position and projected profitability. This Committee makes adjustments to the asset/liability position of the Bank that are reviewed by the Directors of the Bank. This Committee also reviews the Bank's portfolio, formulates investment strategies, and oversees the timing and implementation of transactions as intended to assure attainment of the Bank's objectives in an effective manner. In addition, each quarter the Board reviews the Bank's asset/liability position, including simulations of the effect on the Bank of various interest rate scenarios.

In managing its asset/liability composition, the Bank may, at times, depending on the relationship between long-term and short-term interest rates, market conditions and consumer preference, place more emphasis on managing net interest margin than on better matching the interest rate sensitivity of assets and liabilities in an effort to enhance net interest income. Management believes that the increased net interest income resulting from a mismatch in the maturities of asset and liability portfolios can, in certain situations, provide high enough returns to justify the increased exposure to sudden and unexpected changes in interest rates.

To the extent consistent with its interest rate risk objectives, the Bank attempts to manage its interest rate risk and has taken a number of steps to structure its balance sheet to better match the maturities of assets and liabilities. The Bank sells almost all of its 30-year fixed rate single family residential loans to third parties and generally places adjustable rate or shorter-term fixed rate loans with certain risk characteristics into its loan portfolio. In addition, a significant portion of the Bank's commercial loans that are placed into the portfolio are adjustable rate loans or fixed rate loans that reprice in five year

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than commitments to originate and sell loans in the ordinary course of business.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4: Controls and Procedures

Evaluation of disclosure controls and procedures. At the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in internal controls. There was no change in the Company's internal control over financial reporting defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the Company's most recently completed fiscal quarter that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

HMN FINANCIAL, INC.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.
Proceedings.

From time to time, the Company is party to legal proceedings arising out of its lending and operations. The Company is, and expects to be, engaged in a number of foreclosure proceedings and other collection actions as part of its normal operations. Based on our current understanding of these legal proceedings, management does not believe that judgments or settlements arising from any pending or threatened litigation matters, individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial statements.

ITEM 1A. Risk Factors.
Risk Factors.

The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, Item 1A. Risk Factors" could affect the Company's financial performance and could cause its actual results for future periods to differ materially from its anticipated results or other expectations, including those contained in the Company's public statements.

in any forward-looking statements made in this Report on Form 10-Q.

ITEM Unregistered Sales of Equity Securities.
2.Unregistered Use of Proceeds, and Issuer Purchases of Equity Securities.
Equity Securities,
Use of Proceeds, and Issuer Purchases of Equity Securities.

The Company did not purchase any of its outstanding shares during the third first quarter of 2023, 2024. The Company announced on March 1, 2023 that the Board of Directors had authorized the repurchase of up to \$6.0 million of shares and all \$6.0 million \$5.4 million remained available for repurchase at September 30, 2023 March 31, 2024. Share repurchases may be executed through open market transactions, including through open market trading, privately negotiated transactions or otherwise. The repurchase program does not obligate the Company to purchase any shares and has no set expiration date.

ITEM Defaults Upon Senior Securities.
3.Defaults Upon Senior Securities.
None.

ITEM 4.Mine Mine Safety Disclosures.
Safety Disclosures.
Not applicable.

ITEM 5. Other Information.
ITEM 5.Other Information.
None of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified, terminated any contract, instruction, or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) 10b5-1(c) of the Exchange Act or any trading arrangement (as defined in Rule 408(c) 408(c) of Regulation S-K) during the quarter ended September 30, 2023.March 31, 2024.

ITEM Exhibits.
6.Exhibits.

INDEX TO EXHIBITS

		INDEX TO EXHIBITS		
Exhibit				F
Number		Exhibit		
Number	Exhibit	Filing Status		
31.1		Rule 13a-14(a)/15d-14(a) Certification of CEO		El
31.2		Rule 13a-14(a)/15d-14(a) Certification of CFO		El
32		Section 1350 Certifications of CEO and CFO		El
101		Financial statements from the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2023 March 31, 2024, filed with the Securities and Exchange Commission on November 2, 2023 May 7, 2024 formatted in Inline Extensible Business Reporting Language (iXBRL); (i) the Consolidated Balance Sheets at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, (ii) the Consolidated		El

		Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2023 March 31, 2024 and 2022, 2023, (iii) the Consolidated Statements of Stockholders' Equity for the Three Month Periods Ended March 31, 2024 and Nine Months Ended September 30, 2023 and 2022, 2023, (iv) the Consolidated Statements of Cash Flows for the Nine Three Months Ended September 30, 2023 March 31, 2024 and 2022, 2023, and (v) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2023 March 31, 2024 (formatted as Inline XBRL and contained in Exhibit 101).	El
SIGNATURES		

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

HMN FINANCIAL,

Registrar

Date: November 2, 2023
May 7, 2024

Bradley
President and
Executive Officer
(Duly Authorized

Date: November 2, 2023
May 7, 2024

Jon Eberle, Ser
President and
Chief Financial O
(Principal Finan
Accounting Offic

4136
EXHIBIT
CERTIFICATIONS

- I, Bradley Krehbiel, certify that:
1.

I have reviewed this quarterly report on F
of HMN Financial, Inc.;
2.

Based on my knowledge, this report
contain any untrue statement of a material fact
state a material fact necessary to make the st
made, in light of the circumstances under wh
statements were made, not misleading with r
the period covered by this report;
3.

Based on my knowledge, the financial st
and other financial information included in th
fairly present in all material respects the
condition, results of operations and cash flow
registrant as of, and for, the periods presente
report;

4. The registrant's other certifying officer(s) 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 has

(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 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 quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and 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 and process, summarize and report financial information and

(b) Any fraud, whether or not material, that involves management or other employees who

significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023 By: /s/ Bradley Krehbiel
May 7, 2024
Bradley Krehbiel
President and Chief Executive Officer
(Duly Authorized Officer)

EXHIBIT
CERTIFICATIONS

- I, Jon J. Eberle, certify that:
- I have reviewed this quarterly report on Form 10-Q of HMN Financial, Inc.;
 - Based on my knowledge, this report does not contain any untrue statement of a material fact or state a material fact necessary to make the statements made, in light of the circumstances under which the statements were made, not misleading with respect to the period covered by this report;
 - Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 - The registrant's other certifying officer(s) 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 presented in this report and our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report 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 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 or officers have disclosed, based on our most recent evaluation of internal control over financial reporting, whether or not they are aware of any significant deficiencies in the design or operation of internal control which may adversely affect the registrant's ability to record, process, summarize and report financial information and whether or not they are aware of 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.

(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 whether or not they are aware of 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.

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

Date: November 2, 2023 May 7, 2024 By: /s/Jon J. Eberle
Jon J. Eberle
Jon J. Eberle
Senior Vice President
Chief Financial Officer
and Treasurer
(Principal Financial Officer and Accounting Officer)

HMN FINANCIAL, INC.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1351
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT

In connection with the Quarterly Report of HMN Financial, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023, with the Securities and Exchange Commission date hereof (the "Report"), we, Bradley Eberle, Senior Vice President, Chief Financial Officer and Treasurer of the Company (Principal Financial Officer of the Company), certify, pursuant to 18 U.S.C. § 1351 adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934.
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023
May 7, 2024

/s/ Bradley Krehbiel
Bradley Krehbiel
President and Chief Executive Officer
(Duly Authorized Officer)

/s/ Jon Eberle
Jon Eberle
Senior Vice President/Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

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