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

FORM 10-K

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the fiscal year ended December 31, 2023
OR
☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the transition period from __________ to __________

Commission File Number: 0-26486

Auburn National Bancorporation, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	63-0885779
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
100 N. Gay Street, Auburn, Alabama	36830
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (334) 821-9200

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

Title of Each Class	Trading Symbol	Name of Exchange on which Registered
Common Stock, par value $0.01	AUBN	NASDAQ Global Market

Securities registered to Section 12(g) of the Act: None

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

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

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

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

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

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 selected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: $47,841,697 as of June 30, 2023.

APPLICABLE ONLY TO CORPORATE REGISTRANTS
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 3,493,674 shares of common stock as of March 13, 2024.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement for the Annual Meeting of Shareholders, scheduled to be held May 14, 2024, are incorporated by reference into Part II, Item 5 and Part III of this Form 10-K.

TABLE OF CONTENTS

PART I		PAGE
ITEM 1.	BUSINESS	4
ITEM 1A.	RISK FACTORS	32
ITEM 1B.	UNRESOLVED STAFF COMMENTS	48
ITEM 1C.	CYBERSECURITY	48
ITEM 2.	PROPERTIES	49
ITEM 3.	LEGAL PROCEEDINGS	51
ITEM 4.	MINE SAFETY DISCLOSURES	51
PART II		
ITEM 5.	MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	51
ITEM 6.	SELECTED FINANCIAL DATA	54
ITEM 7.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	54
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	82
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	82
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	123
ITEM 9A.	CONTROLS AND PROCEDURES	123
ITEM 9B.	OTHER INFORMATION	123
ITEM 9C.	DISCLOSURE REGARDING FORGEIN JURISDICTIONS THAT PREVENT INSPECTION	123
PART III		
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	124
ITEM 11.	EXECUTIVE COMPENSATION	124
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	124
ITEM 13.	CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE	124
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	124
PART IV		
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	124

PART I

SPECIAL CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Various of the statements made herein under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Quantitative and Qualitative Disclosures about Market Risk", "Risk Factors" "Description of Property" and elsewhere, are "forward-looking statements" within the meaning and protections of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause the actual results, performance, achievements or financial condition of the Company to be materially different from future results, performance, achievements or financial condition expressed or implied by such forward-looking statements. You should not expect us to update any forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as "may," "will," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "estimate," "continue," "designed", "plan," "point to," "project," "could," "intend," "target" and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- the effects of future economic, business and market conditions and changes, foreign, domestic and locally, including inflation, seasonality, natural disasters or climate change, such as rising sea and water levels, hurricanes and tornados, COVID-19 or other health crises, epidemics or pandemics including supply chain disruptions, inventory volatility, and changes in consumer behaviors;

- the effects of war or other conflicts, acts of terrorism, trade restrictions, sanctions or other events that may affect general economic conditions;

- governmental monetary and fiscal policies, including the continuing effects of COVID-19 fiscal and monetary stimuli, and subsequent changes in monetary policies in response to inflation, including increases in the Federal Reserve's target federal funds rate and reductions in the Federal Reserve's holdings of securities through quantitative tightening; and the duration that the Federal Reserve will keep its targeted federal funds rates at or above current rates to meet its long term inflation target of 2%;

- legislative and regulatory changes, including changes in banking, securities and tax laws, regulations and rules and their application by our regulators, including capital and liquidity requirements, and changes in the scope and cost of FDIC insurance;

- changes in accounting pronouncements and interpretations, including the required use, beginning January 1, 2023, of Financial Accounting Standards Board's ("FASB") Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," as well as the updates issued since June 2016 (collectively, FASB ASC Topic 326) on Current Expected Credit Losses ("CECL"), and ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures, which eliminates troubled debt restructurings ("TDRs") and related guidance;

- the failure of assumptions and estimates, including those used in the Company's CECL models to establish our allowance for credit losses and estimate asset impairments, as well as differences in, and changes to, economic, market and credit conditions, including changes in borrowers' credit risks and payment behaviors from those used in our CECL models and loan portfolio reviews;

- the risks of changes in market interest rates and the shape of the yield curve on customer behaviors; the levels, composition and costs of deposits, loan demand and mortgage loan originations; the values and liquidity of loan collateral, our securities portfolio and interest-sensitive assets and liabilities; and the risks and uncertainty of the amounts realizable on collateral;

- the risks of increases in market interest rates creating unrealized losses on our securities available for sale, which adversely affect our stockholders' equity for financial reporting purposes and our tangible equity;
- changes in borrower liquidity and credit risks, and savings, deposit and payment behaviors;
- changes in the availability and cost of credit and capital in the financial markets, and the types of instruments that may be included as capital for regulatory purposes;
- changes in the prices, values and sales volumes of residential and commercial real estate;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services, including the disruptive effects of financial technology and other competitors who are not subject to the same regulation, including capital, and supervision and examination, as the Company and the Bank and credit unions, which are not subject to federal income taxation;
- the timing and amount of rental income from third parties following the June 2022 opening of our new headquarters;
- the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;
- changes in technology or products that may be more difficult, costly, or less effective than anticipated;
- cyber-attacks and data breaches that may compromise our systems, our vendors' systems or customers' information;
- the risks that our deferred tax assets ("DTAs") included in "other assets" on our consolidated balance sheets, if any, could be reduced if estimates of future taxable income from our operations and tax planning strategies are less than currently estimated, and sales of our capital stock could trigger a reduction in the amount of net operating loss carry-forwards that we may be able to utilize for income tax purposes;
- the risks that our dividends, share repurchases and discretionary bonuses are limited by regulation to the maintenance of a capital conservation buffer of 2.5% and our future earnings and "eligible retained earnings" over rolling four calendar quarter periods;
- other factors and risks described under "Risk Factors" herein and in any of our subsequent reports that we make with the Securities and Exchange Commission (the "Commission" or "SEC") under the Exchange Act.

All written or oral forward-looking statements that we make or are attributable to us are expressly qualified in their entirety by this cautionary notice. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this report, or after the respective dates on which such statements otherwise are made.

ITEM 1. BUSINESS

Auburn National Bancorporation, Inc. (the "Company") is a bank holding company registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company was incorporated in Delaware in 1990, and in 1994 it succeeded its Alabama predecessor as the bank holding company controlling AuburnBank, an Alabama state member bank with its principal office in Auburn, Alabama (the "Bank"). The Company and its predecessor have controlled the Bank since 1984. As a bank holding company, the Company may diversify into a broader range of financial services and other business activities than currently are permitted to the Bank under applicable laws and regulations. The holding company structure also provides greater financial and operating flexibility than is presently permitted to the Bank.

The Bank has operated continuously since 1907 and currently conducts its business primarily in East Alabama, including Lee County and surrounding areas. The Bank has been a member of the Federal Reserve Bank of Atlanta (the "Federal Reserve Bank") since April 1995. The Bank's primary regulators are the Federal Reserve and the Alabama Superintendent of Banks (the "Alabama Superintendent"). The Bank has been a member of the Federal Home Loan Bank of Atlanta (the "FHLB-Atlanta") since 1991.

General

The Company's business is conducted primarily through the Bank and its subsidiaries. Although it has no immediate plans to conduct any other business, the Company may engage directly or indirectly in a number of activities closely related to banking permitted by the Federal Reserve.

The Company's principal executive offices are located at 100 N. Gay Street, Auburn, Alabama 36830, and its telephone number at such address is (334) 821-9200. The Company maintains an Internet website at *www.auburnbank.com*. The Company's website and the information appearing on the website are not included or incorporated in, and are not part of, this report. The Company files annual, quarterly and current reports, proxy statements, and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for more information on the operation of the public reference rooms. The SEC maintains an Internet site at *www.sec.gov* that contains reports, proxy, and other information, where SEC filings are available to the public free of charge.

Services

The Bank offers checking, savings, transaction deposit accounts and certificates of deposit, and is an active residential mortgage lender in its primary service area. The Bank's primary service area includes the cities of Auburn and Opelika, Alabama and nearby surrounding areas in East Alabama, primarily in Lee County. The Bank also offers commercial, financial, agricultural, real estate construction and consumer loan products and other financial services. The Bank is one of the largest providers of automated teller machine ("ATM") services in East Alabama and operates ATM machines in 12 locations in its primary service area. The Bank offers Visa® Checkcards, which are debit cards with the Visa logo that work like checks and can be used anywhere Visa is accepted, including ATMs. The Bank's Visa Checkcards can be used internationally through the Plus® network. The Bank offers online banking, bill payment and other electronic banking services through its Internet website, *www.auburnbank.com*. Our online banking services, bill payment and electronic services are subject to certain cybersecurity risks. See "Risk Factors – Our information systems may experience interruptions and security breaches."

The Bank does not offer any services related to any Bitcoin or other digital or crypto instruments or stablecoins or businesses.

Competition

The Bank had the largest share of the Auburn-Opelika MSA's deposits (20.1%) at June 30, 2023. The banking business in East Alabama, including Lee County, is highly competitive with respect to loans, deposits, and other financial services. The area is served by 19 banks, 11 of which are headquartered outside of Alabama and have 26 offices in our market. Larger national and regional competitors that have offices in our market include J.P. Morgan Chase, Wells Fargo, Truist, PNC, Regions, Valley National and SouthState. The regional and national banks and bank holding companies that we compete with have substantially greater resources, and numerous offices and affiliates operating over wide geographic areas. The Bank competes for deposits, loans and other business with these banks, as well as with credit unions, mortgage companies, insurance companies, and other local and nonlocal financial institutions, including institutions offering services through the mail, by telephone and over the Internet. As more and different kinds of businesses enter the market for financial services, competition from nonbank financial institutions may be expected to intensify further.

Among the advantages that larger financial institutions have over the Bank are their ability to finance extensive advertising campaigns, to diversify their funding sources, and to allocate and diversify their assets among loans and securities of the highest yield in locations with the greatest demand. Many of the major commercial banks or their affiliates operating in the Bank's service area offer services which are not presently offered directly by the Bank, and these other banks typically have substantially higher lending limits than the Bank.

Banks also have experienced significant competition for deposits from mutual funds, insurance companies and other investment companies and from money center banks' offerings of high-yield investments and deposits, including CDs and savings accounts. Certain of these competitors are not subject to the same regulatory restrictions as the Bank.

Selected Economic Data

The Auburn-Opelika Metropolitan Statistical Area is Lee County, Alabama, including Auburn, Opelika and part of Phenix City, Alabama. The U.S. Census Bureau estimates Lee County's population was 180,773 in 2022, and has increased approximately 29% from 2010 to 2022. The largest employers in the area are Auburn University, East Alabama Medical Center, Lee County School System, Auburn City Schools, Wal-Mart Distribution Center, Aptar CSP Technologies, Pharmavite, LLC, HL Mando America Corporation (automobile brakes and steering), Golden State Foods and Briggs & Stratton. Auto manufacturing and related suppliers are increasingly important along Interstate Highway 85 to the east and west of Auburn. Kia Motors has a large automobile factory in nearby West Point, Georgia, and Hyundai Motors has a large automobile factory near Montgomery, Alabama. Various suppliers to the automotive industry have facilities in Lee County. The unemployment rate in Lee County was 2.4% at year end 2023 according to the U.S. Bureau of Labor Statistics.

Between 2010 and 2022, the Auburn-Opelika MSA was the second fastest growing MSA in Alabama. The Auburn-Opelika MSA population is estimated to grow 6.6% from 2023 to 2028. During the same time, household income is estimated to increase 14.25%, to $69,213.

Loans and Loan Concentrations

The Bank makes loans for commercial, financial and agricultural purposes, as well as for real estate mortgages, real estate acquisition, construction and development and consumer purposes. While there are certain risks unique to each type of lending, management believes that there is more risk associated with commercial, real estate acquisition, construction and development, agricultural and consumer lending than with residential real estate mortgage loans. To help manage these risks, the Bank has established underwriting standards used in evaluating each extension of credit on an individual basis, which are substantially similar for each type of loan. These standards include a review of the economic conditions affecting the borrower, the borrower's financial strength and capacity to repay the debt, the underlying collateral and the borrower's past credit performance. We apply these standards at the time a loan is made and monitor them periodically throughout the life of the loan. See "Lending Practices" for a discussion of regulatory guidance on commercial real estate lending.

Our commercial real estate ("CRE") loans, including $66.8 million of loans on owner occupied property, as of December 31, 2023 totaled $287.3 million (52% of total loans). Our regulators' CRE Guidance excludes loans on owner occupied property from CRE. Excluding our owner occupied loans, our CRE loans were $220.5 million (40% of total loans) at year end 2023. See "Lending Practices – *CRE*."

The Bank has loans outstanding to borrowers in all industries within our primary service area. Any adverse economic or other conditions affecting these industries would also likely have an adverse effect on the local workforce, other local businesses, and individuals in the community that have entered into loans with the Bank. For example, the auto manufacturing business and its suppliers have positively affected our local economy, but automobile sales manufacturing is cyclical and adversely affected by increases in interest rates. Decreases in automobile sales, including adverse changes due to interest rate increases, and the remaining economic effects of the COVID-19 pandemic, including continuing supply chain disruptions and a tight labor market, could adversely affect nearby Kia and Hyundai automotive plants and their suppliers' local spending and employment, and could adversely affect economic conditions in the markets we serve. However, management believes that due to the diversified mix of industries located within our markets, adverse changes in one industry may not necessarily affect other area industries to the same degree or within the same time frame. The Bank's primary service area also is subject to both local and national economic conditions and fluctuations. While most loans are made within our primary service area, some residential mortgage loans are originated outside the primary service area, and the Bank from time to time has purchased loan participations from outside its primary service area. We also may make loans to other borrowers outside these areas, especially where we have a relationship with the borrower, or its business or owners.

Human Capital

At December 31, 2023, the Company and its subsidiaries had 149.5 full-time equivalent employees, including 38 officers. Our average term of service is approximately 10 years. We successfully implemented plans to protect our employees' health consistent with CDC and State of Alabama guidelines during the COVID-19 pandemic, while maintaining critical banking services to our communities. In addition, we developed our remote and electronic banking services, and established remote work access to help employees stay at home where job duties permitted. This promoted employee retention, and these efforts will provide us proven experience and flexibility to meet other disruptive events and conditions, and still provide our customers and communities continuity of service.

We experienced little turnover as a result of the COVID-19 pandemic and made no staff reductions. As a result, we received a federal employee retention tax credit of approximately $1.6 million in 2022.

We have a talented group of employees, many of whom, have a college or associate degree. We believe the Auburn-Opelika MSA is a desirable place to live and work with excellent schools and quality of life. Our MSA was the second fastest growing MSA in Alabama from 2010 to 2022. Auburn University is a major employer that attracts talented students and employee families. Various of our employees have a family member that is employed by or is attending the University.

We had a successful management transition in 2022 where our CEO became Chairman, and was succeeded by our CFO, whose role was then filled by our Chief Accounting Officer. At the time of transition, our Chairman had served the Bank his entire 39-year career, our President and CEO had been with us 16 years and our Chief Accounting Officer had been with us for 7 years. Our new President and CFO had careers with major national and regional accounting firms and focused on financial services before joining the Bank.

We seek to provide competitive compensation and benefits. We provide employer matches for employee contributions to our 401(k) retirement plan. We encourage and support the growth and development of our employees and, wherever possible, seek to fill positions by promotion and transfer from within the organization. Career development is advanced through ongoing performance and development conversations with employees, internally developed training programs and other training and development opportunities.

Our employees are encouraged to be active in our communities as part of our commitment to these communities and our employees.

Statistical Information

Certain statistical information is included in responses to Items 6, 7, 7A and 8 of this Annual Report on Form 10-K.

SUPERVISION AND REGULATION

The Company and the Bank are extensively regulated under federal and state laws applicable to bank holding companies and banks. The supervision, regulation and examination of the Company and the Bank and their respective subsidiaries by the bank regulatory agencies are primarily intended to maintain the safety and soundness of depository institutions and the federal deposit insurance system, as well as the protection of depositors, rather than holders of Company capital stock and other securities. Any change in applicable law or regulation may have a material effect on the Company's business, and our results of operations and financial condition. The following discussion is qualified in its entirety by reference to the particular laws and rules referred to below.

Bank Holding Company Regulation

The Company, as a bank holding company, is subject to supervision, regulation and examination by the Federal Reserve under the BHC Act. Bank holding companies generally are limited to the business of banking, managing or controlling banks, and certain related activities. The Company is required to file periodic reports and other information with the Federal Reserve. The Federal Reserve examines the Company and its subsidiaries. The State of Alabama currently does not regulate bank holding companies.

The BHC Act requires prior Federal Reserve approval for, among other things, the acquisition by a bank holding company of direct or indirect ownership or control of more than 5% of the voting shares or substantially all the assets of any bank, or for a merger or consolidation of a bank holding company with another bank holding company. The BHC Act generally prohibits a bank holding company from acquiring direct or indirect ownership or control of voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in any activity other than banking or managing or controlling banks or performing services for its authorized subsidiaries. A bank holding company may, however, engage in or acquire an interest in a company that engages in activities that the Federal Reserve has determined by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. On January 30, 2020, the Federal Reserve adopted new rules, effective September 30, 2020 simplifying determinations of control of banking organizations for BHC Act purposes.

Bank holding companies that are and remain “well-capitalized” and “well-managed,” as defined in Federal Reserve Regulation Y, and whose insured depository institution subsidiaries maintain “satisfactory” or better ratings under the Community Reinvestment Act of 1977 (the “CRA”), may elect to become “financial holding companies.” Financial holding companies and their subsidiaries are permitted to acquire or engage in activities such as insurance underwriting, securities underwriting, travel agency activities, broad insurance agency activities, merchant banking and other activities that the Federal Reserve determines to be financial in nature or complementary thereto. In addition, under the BHC Act’s merchant banking authority and Federal Reserve regulations, financial holding companies are authorized to invest in companies that engage in activities that are not financial in nature, as long as the financial holding company makes its investment, subject to limitations, including a limited investment term, no day-to-day management, and no cross-marketing with any depositary institutions controlled by the financial holding company. The Federal Reserve recommended repeal of the merchant banking powers in its September 16, 2016 study pursuant to Section 620 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), but has taken no action. The Company has not elected to become a financial holding company, but it may elect to do so in the future.

Financial holding companies continue to be subject to Federal Reserve supervision, regulation and examination, but the Gramm-Leach-Bliley Act of 1999 the “GLB Act”) applies the concept of functional regulation to subsidiary activities. For example, insurance activities would be subject to supervision and regulation by state insurance authorities.

The BHC Act permits acquisitions of banks by bank holding companies, subject to various restrictions, including that the acquirer is “well capitalized” and “well managed”. Bank mergers are also subject to the approval of the resulting bank’s primary federal regulator pursuant to the Bank Merger Act. The BHC Act and the Bank Merger Act provide various generally similar statutory factors. Under the Alabama Banking Code, with the prior approval of the Alabama Superintendent, an Alabama bank may acquire and operate one or more banks in other states pursuant to a transaction in which the Alabama bank is the surviving bank. In addition, one or more Alabama banks may enter into a merger transaction with one or more out-of-state banks, and an out-of-state bank resulting from such transaction may continue to operate the acquired branches in Alabama. The Dodd-Frank Act permits banks, including Alabama banks, to branch anywhere in the United States. See “Bank Regulation”.

The Company is a legal entity separate and distinct from the Bank. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company. The Company and the Bank are subject to Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W thereunder. Section 23A defines “covered transactions,” which include extensions of credit, and limits a bank’s covered transactions with any affiliate to 10% of such bank’s capital and surplus. All covered and exempt transactions between a bank and its affiliates must be on terms and conditions consistent with safe and sound banking practices, and banks and their subsidiaries are prohibited from purchasing low-quality assets from the bank’s affiliates. Finally, Section 23A requires that all of a bank’s extensions of credit to its affiliates be appropriately secured by permissible collateral, generally United States government or agency securities. Section 23B of the Federal Reserve Act generally requires covered and other transactions among affiliates to be on terms and under circumstances, including credit standards, that are substantially the same as or at least as favorable to the bank or its subsidiary as those prevailing at the time for similar transactions with unaffiliated companies.

Federal Reserve policy and the Federal Deposit Insurance Act, as amended by the Dodd-Frank Act, require a bank holding company to act as a source of financial and managerial strength to its FDIC-insured subsidiaries and to take measures to preserve and protect such bank subsidiaries in situations where additional investments in a bank subsidiary may not otherwise be warranted. In the event an FDIC-insured subsidiary becomes subject to a capital restoration plan with its regulators, the parent bank holding company is required to guarantee performance of such plan up to 5% of the bank's assets, and such guarantee is given priority in a bankruptcy of the bank holding company. In addition, where a bank holding company has more than one bank or thrift subsidiary, each of the bank holding company's subsidiary depository institutions may be responsible for any losses to the FDIC's Deposit Insurance Fund ("DIF"), if an affiliated depository institution fails. As a result, a bank holding company may be required to loan money to a bank subsidiary in the form of subordinate capital notes or other instruments which qualify as capital under bank regulatory rules. However, any loans from the holding company to such subsidiary banks likely will be unsecured and subordinated to such bank's depositors and to other creditors of the bank. See "Capital."

As a result of legislation in 2014 and 2018, the Federal Reserve has revised its Small Bank Holding Company Policy Statement (the "Small BHC Policy") to expand it to include thrift holding companies and increase the size of "small" for qualifying bank and thrift holding companies from $500 million to up to $3 billion of pro forma consolidated assets.

The Federal Reserve confirmed in 2018 that the Company is eligible for treatment as a small banking holding company under the Small BHC Policy. As a result, unless and until the Company fails to qualify under the Small BHC Policy, the Company's capital adequacy will continue to be evaluated on a bank only basis. See "Capital."

Bank Regulation

The Bank is a state bank that is a member of the Federal Reserve. It is subject to supervision, regulation and examination by the Federal Reserve and the Alabama Superintendent, which monitor all areas of the Bank's operations, including loans, reserves, mortgages, issuances and redemption of capital securities, payment of dividends, establishment of branches, capital adequacy and compliance with laws. The Bank is a member of the FDIC and, as such, its deposits are insured by the FDIC to the maximum extent provided by law, and the Bank is subject to various FDIC regulations applicable to FDIC-insured banks. See "FDIC Insurance Assessments."

Alabama law permits statewide branching by banks. The powers granted to Alabama-chartered banks by state law include certain provisions designed to provide such banks competitive equality with national banks.

The Federal Reserve has adopted the Federal Financial Institutions Examination Council's ("FFIEC") Uniform Financial Institutions Rating System ("UFIRS"), which assigns each financial institution a confidential composite "CAMELS" rating based on an evaluation and rating of six essential components of an institution's financial condition and operations: **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity and **S**ensitivity to market risk, as well as the quality of risk management practices. For most institutions, the FFIEC has indicated that market risk primarily reflects exposures to changes in interest rates. When regulators evaluate this component, consideration is expected to be given to management's ability to identify, measure, monitor and control market risk; the institution's size; the nature and complexity of its activities and its risk profile; and the adequacy of its capital and earnings in relation to its level of market risk exposure. Market risk is rated based upon, but not limited to, an assessment of the sensitivity of the financial institution's earnings or the economic value of its capital to adverse changes in interest rates, foreign exchange rates, commodity prices or equity prices; management's ability to identify, measure, monitor and control exposure to market risk; and the nature and complexity of interest rate risk exposure arising from non-trading positions. Composite ratings are based on evaluations of an institution's managerial, operational, financial and compliance performance. The composite CAMELS rating is not an arithmetical formula or rigid weighting of numerical component ratings. Elements of subjectivity and examiner judgment, especially as these relate to qualitative assessments, are important elements in assigning ratings. The federal bank regulatory agencies are reviewing the CAMELS rating system and their consistency.

In addition, and separate from the interagency UFIRS, the Federal Reserve assigns a risk-management rating to all state member banks. The summary, or composite, rating, as well as each of the assessment areas, including risk management, is delineated on a numerical scale of 1 to 5, with 1 being the highest or best possible rating. Thus, a bank with a composite rating of 1 requires the lowest level of supervisory attention while a 5-rated bank has the most critically deficient level of performance and therefore requires the highest degree of supervisory attention.

Bank mergers, which generally accompany holding company mergers, are also subject to the approval of the resulting bank's primary federal regulator. On March 19, 2022, the FDIC published a "Request for Information and Comment on Rules, Regulations, Guidance, and Statements of Policy Regarding Bank Merger Transactions" (the "FDIC Notice"). The FDIC solicited comments from interested parties regarding the application of the laws, practices, rules, regulations, guidance, and statements of policy (together, regulatory framework) that apply to merger transactions involving one or more insured depository institution, including the merger between an insured depository institution and a noninsured institution. The FDIC is interested in receiving comments regarding the effectiveness of the existing framework in meeting the requirements of the Bank Merger Act. On January 29, 2024, the Office of the Comptroller of the Currency ("OCC") issue a notice of proposed rulemaking to change its standards for reviewing business combination applications and issue a policy statement of principles used by the OCC in its merger reviews.

The FDIC Notice described the consolidation of the banking industry, the increase in the number of large and systemically important banking organizations and the need to evaluate large mergers' financial stability and the resolution of failing bank risks consistent with the Dodd-Frank Act changes to the BHC Act and the Bank Merger Act, and the effects of banking mergers on competition. The FDIC Notice also stated that Executive Order Promoting Competition in the American Economy (July 9, 2021) (the "Executive Order"), among other things, "instructs U.S. agencies to consider the impact that consolidation may have on maintaining a fair, open, and competitive marketplace, and on the welfare of workers, farmers, small businesses, startups, and consumers." The FDIC requested comments on all aspects of the bank regulatory framework, including qualitative and quantitative support for such responses. The other Federal bank regulators as well as the United States Department of Justice ("DoJ"), are also considering the framework for mergers involving banking organizations, including the competitive effects of such combinations. The federal bank regulators have not announced any conclusions, but these reviews could result in changes to the frameworks used to evaluate banking combinations which could make such combinations more difficult, time consuming and expensive. Federal Reserve Governor Bowman, in a March 7, 2024 speech, stated that "regulatory reforms in this area should prioritize speed and timeliness. Stakeholders who are concerned about current bank M&A procedures and policies should consider direct engagement with regulators."

The GLB Act and related regulations require banks and their affiliated companies to adopt and disclose privacy policies, including policies regarding the sharing of personal information with third parties. The GLB Act also permits bank subsidiaries to engage in financial activities, which are similar to those permitted to financial holding companies. In December 2015, Congress amended the GLB Act as part of the Fixing America's Surface Transportation Act. This amendment provided financial institutions, which meet certain conditions, an exemption from the requirement to deliver an annual privacy notice. On August 10, 2018, the federal Consumer Financial Protection Bureau ("CFPB") announced that it had finalized conforming amendments to its implementing regulation, Regulation P.

A variety of federal and state privacy laws govern the collection, safeguarding, sharing and use of customer information, and require that financial institutions have policies regarding information privacy and security. Some state laws also protect the privacy of information of state residents and require adequate security of such data, and certain state laws may, in some circumstances, require us to notify affected individuals of security breaches of computer databases that contain their personal information. These laws may also require us to notify law enforcement, regulators or consumer reporting agencies in the event of a data breach, as well as businesses and governmental agencies that own data.

H.R. 1165, The Data Privacy Act of 2023, was introduced in Congress on February 24, 2023 by Rep. McHenry, the Chairman of the House Financial Services Committee, to which the Bill was referred. It amends various sections of the GLB Act and preempts certain state privacy laws. Its preemption provisions have triggered opposition by the minority in the House of Representatives.

Table of Contents

Community Reinvestment Act and Consumer Laws

The Bank is subject to the provisions of the CRA and the Federal Reserve's CRA regulations. Under the CRA, all FDIC-insured institutions have a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs for their entire communities, including low- and moderate-income ("LMI") neighborhoods. The CRA requires a depository institution's primary federal regulator to periodically assess the institution's record of assessing and meeting the credit needs of the communities served by that institution, including low- and moderate-income neighborhoods. The bank regulatory agency's CRA assessment is publicly available. Further, consideration of the CRA is required of any FDIC-insured institution that has applied to: (i) charter a national bank; (ii) obtain deposit insurance coverage for a newly-chartered institution; (iii) establish a new branch office that accepts deposits; (iv) relocate an office; or (v) merge or consolidate with, or acquire the assets or assume the liabilities of, an FDIC-insured financial institution. A less than satisfactory CRA rating will slow, if not preclude, acquisitions, and new branches and other expansion activities and may prevent a company from becoming a financial holding company. The federal CRA regulations require that evidence of discriminatory, illegal or abusive lending practices be considered in the CRA evaluation.

CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank's primary federal regulator. Community benefit plans have become common in banking mergers, especially larger bank combinations. The National Community Resolution Coalition reported in February 2023 that it had executed more than 20 community benefit plans with banking organizations. A financial holding company election, and such election and financial holding company activities are permitted to be continued, only if any affiliated bank has not received less than a "satisfactory" CRA rating. The federal CRA regulations require that evidence of discriminatory, illegal or abusive lending practices be considered in the CRA evaluation.

The Bank had a "satisfactory" CRA rating in its latest CRA public evaluation dated February 28, 2022, with satisfactory ratings on both its lending and community development tests.

The federal CRA regulations require that evidence of discriminatory, illegal or abusive lending practices be considered in the CRA evaluation.

A financial holding company election, and the continuation of such election and financial holding company activities are permitted, if any affiliated bank has not received less than a "satisfactory" CRA rating.

The Federal Reserve considers the effect of a bank acquisition proposal on the convenience and needs of the markets served by the combining organizations. In the case of bank holding company applications to acquire a bank, the Federal Reserve will assess and emphasize CRA records of each subsidiary depository institution of the applicant bank holding company and the target bank in meeting the needs of their entire communities, including low- and moderate-income ("LMI") neighborhoods, and such records may be the basis for denying the application.

CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank's primary federal regulator. Community benefit plans have become common in banking mergers, especially larger bank combinations. The National Community Reinvestment Coalition reported in January 2024 that it had executed more than 21 community benefit plans with banking organizations, with an estimated value of $580 billion to LMI and under-resourced communities.

The Bank is also subject to, among other things, the Equal Credit Opportunity Act (the "ECOA") and the Fair Housing Act and other fair lending laws, which prohibit discrimination based on race or color, religion, national origin, sex and familial status in any aspect of a consumer or commercial credit or residential real estate transaction. The DoJ, and the federal bank regulatory agencies have issued an Interagency Policy Statement on Discrimination in Lending to provide guidance to financial institutions in determining whether discrimination exists, how the agencies will respond to lending discrimination, and what steps lenders might take to prevent discriminatory lending practices. The DOJ has prosecuted what it regards as violations of the ECOA, the Fair Housing Act, and the fair lending laws, generally.

Table of Contents

New CRA Regulations

The federal banking regulators jointly proposed (the "CRA Proposal") revised CRA regulations on June 3, 2022. Final new joint CRA regulations were adopted by the Federal Reserve, the OCC and the FDIC on October 24, 2023, and were finalized and published in the Federal Register on February 1, 2024. Most of the new rules' requirements become effective January 1, 2026, and other requirements, including required data reporting become effective January 1, 2027. The new CRA regulations confirm that the CRA and fair lending responsibilities and compliance are mutually reinforcing and that these regimes recognize the importance of ensuring that the credit markets are inclusive. The agencies are also retaining the provision in the CRA regulations that allows downgrading a bank for discriminatory or other illegal credit practices.

The objectives of the new CRA regulations include:

- Update CRA regulations to strengthen the achievement of the core purpose of the statute;
- Adapt to changes in the banking industry, including the expanded role of mobile and online banking;
- Provide greater clarity and consistency in the application of the regulations;
- Tailor performance standards to account for differences in bank size and business models and local conditions;
- Tailor data collection and reporting requirements and use existing data whenever possible;
- Promote transparency and public engagement;
- Confirm that CRA and fair lending responsibilities are mutually reinforcing; and
- Create a consistent regulatory approach that applies to banks regulated by all three agencies.

The new CRA regulations like the old rules, is based on bank size and business model create a new framework for evaluating CRA performance. Banks are classified as either "small", "intermediate", "large", or "limited purpose" banks. The asset size thresholds would be adjusted annually for inflation and have been increased relative to the bank asset size thresholds in the old CRA rule. The Bank is currently an "intermediate small bank," but will become an "intermediate bank" under the new CRA regulations because it has assets of $600 million to $2.0 billion in both of the two prior years.

The new performance evaluation framework establishes two tests for intermediate banks:

- the Retail Lending Test; and
- the Intermediate Bank Community Development Test, or if elected by the Bank, the Community Development Financing Test.

Intermediate banks would be evaluated and assigned conclusions of reflecting their performance under these tests in their facility based assessment area of "Outstanding"; "High Satisfactory"; "Low Satisfactory"; "Needs to Improve"; or "Substantial Noncompliance." These conclusions applied to each test would be weighted and combined to form a rating of "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Noncompliance."

A "facility based assessment area" is an area that encompasses or is adjacent to deposit-taking facilities, including main offices, branches, and deposit-taking remote service facilities. Intermediate banks could delineate facility-based areas of part of a county. The banking agencies will evaluate retail lending in a bank's "outside retail lending area" for large banks, as well as for intermediate banks, if the majority of their retail lending is outside their facility-based assessment areas.

A retail lending volume screen would be used to measure the volume of a bank's lending relative to its deposit base in its facility-based assessment area and would compare that ratio to the aggregate ratio for all reporting banks with at least one branch in the same facility-based assessment area. Second, the agencies would evaluate the geographic distribution and borrower distribution of a bank's major product lines in the bank's Retail Lending Test Areas (i.e., the bank's facility-based assessment areas, and, as applicable, retail lending assessment areas and outside retail lending area). using a series of metrics and benchmarks. After the agency determines a recommended conclusion for Retail Lending Test Area, the agency would consider a list of additional factors that are intended to account for circumstances in which the retail lending distribution metrics and benchmarks may not accurately or fully reflect a bank's retail lending performance, or in which the benchmarks may not appropriately represent the credit needs and opportunities in an area.

Table of Contents

Banks will receive consideration for any qualified community development loans, investments, or services, regardless of location. The extent of an agency's consideration of community development loans, community development investments, and community development services outside of the bank's facility-based assessment areas will depend on the adequacy of the bank's responsiveness to community development needs and opportunities within the bank's facility-based assessment areas and applicable performance context information. The new CRA rules codify agency interpretations under the former CRA regulations, and provide 11 community development categories. The agencies will evaluate the extent to which a bank's community development loans, investments, and services are impactful and responsive in meeting community development needs. An intermediate bank's community development test performance is evaluated pursuant to the following criteria:

- the number and dollar amount of community development loans;
- the number and dollar amount of community development investments;
- the extent to which the bank provides community development services; and
- the bank's responsiveness through community development loans, community development investments, and community development services to community development needs.

The banking agency's evaluation of the responsiveness of the bank's activities is informed by information provided by the bank, and may be informed by the impact and responsiveness review factors described in the new regulations.

The release proposing these new CRA rules stated that "the agencies believe retail lending remains a core part of a bank's affirmative obligation under the CRA to meet the credit needs of their entire communities. At the same time, the agencies recognize that, compared to large banks, intermediate banks might not offer as wide a range of retail products and services, have a more limited capacity to conduct community development activities, and may focus on the local communities where their branches are located." The proposal reflected "the agencies' views that banks of this size should have meaningful capacity to conduct community development financing, as they do under the current approach.

The new rule exempts small and intermediate banks from certain new data requirements that apply to banks with assets of at least $2 billion and limits certain new data requirements to large banks with assets greater than $10 billion.

Overdrafts

The federal bank regulators have updated their guidance several times on overdrafts, including overdrafts incurred at automated teller machines and point of sale terminals. Overdrafts also have been a CFPB concern, and in 2021 began refocusing on this issue with a view to "insure that banks continue to evolve their businesses to reduce reliance on overdraft and not sufficient funds fees." Among other things, the federal regulators require banks to monitor accounts and to limit the use of overdrafts by customers as a form of short-term, high-cost credit, including, for example, giving customers who overdraw their accounts on more than six occasions where a fee is charged in a rolling 12 month period a reasonable opportunity to choose a less costly alternative and decide whether to continue with fee-based overdraft coverage. It also encourages placing appropriate daily limits on overdraft fees, and asks banks to consider eliminating overdraft fees for transactions that overdraw an account by a de minimis amount. Overdraft policies, processes, fees and disclosures are frequently the subject of litigation against banks in various jurisdictions. The federal bank regulators continue to consider responsible small dollar lending, including overdrafts and related fee issues and issued principals for offering small-dollar loans in a responsible manner on May 20, 2020.

CFPB Consumer Financial Protection Circular 2022-06 (Oct. 26, 2022) concluded that overdraft fee practices must comply with Regulation Z, Regulation E, and the prohibition against unfair, deceptive, and abusive acts or practices in Section 1036 of the Consumer Financial Protection Act. Further, overdraft fees assessed by financial institutions on transactions that a consumer would not reasonably anticipate are likely unfair even if these comply with these other consumer laws and regulations. The CFPB proposed on February 6, 2019 to rescind its mandatory underwriting standards for loans covered by its 2017 Payday, Vehicle Title and Certain High-Cost Installment Loans rule, and has separately proposed delaying the effectiveness of such 2017 rule.

The CFPB has a broad mandate to regulate consumer financial products and services, whether or not offered by banks or their affiliates. The CFPB has the authority to adopt regulations and enforce various laws, including fair lending laws, the Truth in Lending Act, the Electronic Funds Transfer Act, mortgage lending rules, the Truth in Savings Act, the Fair Credit Reporting Act and Privacy of Consumer Financial Information rules. Although the CFPB does not examine or supervise banks with less than $10 billion in assets, banks of all sizes are affected by the CFPB's regulations, and the precedents set in CFPB enforcement actions and interpretations.

Residential Mortgages

CFPB regulations require that lenders determine whether a consumer has the ability to repay a mortgage loan. These regulations establish certain minimum requirements for creditors when making ability to repay determinations, and provide certain safe harbors from liability for mortgages that are "qualified mortgages" and are not “higher-priced.” Generally, these CFPB regulations apply to all consumer, closed-end loans secured by a dwelling including home-purchase loans, refinancing and home equity loans—whether first or subordinate lien. Qualified mortgages must generally satisfy detailed requirements related to product features, underwriting standards, and requirements where the total points and fees on a mortgage loan cannot exceed specified amounts or percentages of the total loan amount. Qualified mortgages must have: (1) a term not exceeding 30 years; (2) regular periodic payments that do not result in negative amortization, deferral of principal repayment, or a balloon payment; (3) and be supported with documentation of the borrower and its credit. On December 10, 2020, the CFPB issued final rules related to “qualified mortgage” loans. Lenders are required under the law to determine that consumers have the ability to repay mortgage loans before lenders make those loans. Loans that meet standards for QM loans are presumed to be loans for which consumers have the ability to repay.

We focus our residential mortgage origination on qualified mortgages and those that meet our investors’ requirements, but we may make loans that do not meet the safe harbor requirements for “qualified mortgages.”

The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (the “2018 Growth Act”) provides that certain residential mortgages held in portfolio by banks with less than $10 billion in consolidated assets automatically are deemed “qualified mortgages.” This relieves smaller institutions from many of the requirements to satisfy the criteria listed above for “qualified mortgages.” Mortgages meeting the “qualified mortgage” safe harbor may not have negative amortization, must follow prepayment penalty limitations included in the Truth in Lending Act, and may not have fees greater than 3% of the total value of the loan.

The Bank generally services the loans it originates, including those it sells. The CFPB’s mortgage servicing standards include requirements regarding force-placed insurance, certain notices prior to rate adjustments on adjustable rate mortgages, and periodic disclosures to borrowers. Servicers are prohibited from processing foreclosures when a loan modification is pending, and must wait until a loan is more than 120 days delinquent before initiating a foreclosure action. Servicers must provide borrowers with direct and ongoing access to its personnel, and provide prompt review of any loss mitigation application. Servicers must maintain accurate and accessible mortgage records for the life of a loan and until one year after the loan is paid off or transferred. These standards increase the cost and compliance risks of servicing mortgage loans, and the mandatory delays in foreclosures could result in loss of value on collateral or the proceeds we may realize from the sale of foreclosed property.

The Federal Housing Finance Authority (“FHFA”) updated, effective January 1, 2016, The Federal National Mortgage Association’s (“Fannie Mae’s”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac’s”) (individually and collectively, “GSE”) repurchase rules, including the kinds of loan defects that could lead to a repurchase request to, or alternative remedies with, the mortgage loan originator or seller. These rules became effective January 1, 2016. FHFA also has updated these GSEs’ representations and warranties framework and provided an independent dispute resolution (“IDR”) process to allow a neutral third party to resolve demands after the GSEs’ quality control and appeal processes have been exhausted.

The Bank is subject to the CFPB’s integrated disclosure rules under the Truth in Lending Act and the Real Estate Settlement Procedures Act, referred to as “TRID”, for credit transactions secured by real property. Our residential mortgage strategy, product offerings, and profitability may change as these regulations are interpreted and applied in practice, and may also change due to any restructuring of Fannie Mae and Freddie Mac as part of the resolution of their conservatorships. The 2018 Growth Act reduced the scope of TRID rules by eliminating the wait time for a mortgage, if an additional creditor offers a consumer a second offer with a lower annual percentage rate. Congress encouraged federal regulators to provide better guidance on TRID in an effort to provide a clearer understanding for consumers and bankers alike. The law also provides partial exemptions from the collection, recording and reporting requirements under Sections 304(b)(5) and (6) of the Home Mortgage Disclosure Act (“HMDA”), for those banks with fewer than 500 closed-end mortgages or less than 500 open-end lines of credit in both of the preceding two years, provided the bank’s rating under the CRA for the previous two years has been at least “satisfactory.” On August 31, 2018, the CFPB issued an interpretive and procedural rule to implement and clarify these requirements under the 2018 Growth Act.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under ASC 340-10 TDR classifications for a limited period of time to account for the effects of COVID-19. On April 7, 2020, the Federal Reserve and the other banking agencies and regulators issued a statement, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" (the "Interagency Statement on COVID-19 Loan Modifications"), to encourage banks to work prudently with borrowers and to describe the agencies' interpretation of how accounting rules under ASC 310-40, "Troubled Debt Restructurings by Creditors," apply to covered modifications. The Interagency Statement on COVID-19 Loan Modifications was supplemented on June 23, 2020 by the Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions. If a loan modification is eligible, a bank may elect to account for the loan under section 4013 of the CARES Act. If a loan modification is not eligible under section 4013, or if the bank elects not to account for the loan modification under section 4013, the Revised Statement includes criteria when a bank may presume a loan modification is not a TDR in accordance with ASC 310-40.

Section 4021 of the CARES Act allows borrowers under 1-to-4 family residential mortgage loans sold to Fannie Mae to request forbearance to the servicer after affirming that such borrower is experiencing financial hardships during the COVID-19 emergency. Such forbearance will be up to 180 days, subject to up to a 180-day extension. During forbearance, no fees, penalties or interest shall be charged beyond those applicable if all contractual payments were fully and timely paid. Except for vacant or abandoned properties, Fannie Mae servicers may not initiate foreclosures on similar procedures or related evictions or sales until December 31, 2020. The forbearance period was extended to February 28, 2021 and then again to March 31, 2021 after being extended earlier to February 28, 2021. Borrowers who are on a COVID-19 forbearance plan as of February 28, 2021 may apply for an additional forbearance extension of up to three additional months. The Bank sells mortgage loans to Fannie Mae and services these on an actual/actual basis. As a result, the Bank is not obligated to make any advances to Fannie Mae on principal and interest on such mortgage loans where the borrower is entitled to forbearance.

Anti-Money Laundering and Sanctions

The International Money Laundering Abatement and Anti-Terrorism Funding Act of 2001 specifies "know your customer" requirements that obligate financial institutions to take actions to verify the identity of the account holders in connection with opening an account at any U.S. financial institution. Bank regulators are required to consider compliance with anti-money laundering laws in acting upon merger and acquisition and other expansion proposals under the BHC Act and the Bank Merger Act, and sanctions for violations of this Act can be imposed in an amount equal to twice the sum involved in the violating transaction, up to $1 million.

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as to enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers.

The USA PATRIOT Act requires financial institutions to establish anti-money laundering programs, and sets forth minimum standards, or "pillars" for these programs, including:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program;
- an independent audit function to test the programs; and
- ongoing customer due diligence and monitoring.

Federal Financial Crimes Enforcement Network ("FinCEN") rules effective May 2018 require banks to know the beneficial owners of customers that are not natural persons, update customer information in order to develop a customer risk profile, and generally monitor such matters.

On August 13, 2020, the federal bank regulators issued a joint statement clarifying that isolated or technical violations or deficiencies are generally not considered the kinds of problems that would result in an enforcement action. The statement addresses how the agencies evaluate violations of individual pillars of the Bank Secrecy Act and anti-money laundering ("AML/BSA") compliance program. It describes how the agencies incorporate the customer due diligence regulations and recordkeeping requirements issued by the U.S. Department of the Treasury ("Treasury") as part of the internal controls pillar of a financial institution's AML/BSA compliance program.

On September 16, 2020, FinCEN issued an advanced notice of proposed rulemaking seeking public comment on a wide range of potential regulatory amendments under the Bank Secrecy Act. The proposal seeks comments on incorporating an "effective and reasonably designed" AML/BSA program component to empower financial institutions to allocate resources more effectively. This component also would seek to implement a common understanding between supervisory agencies and financial institutions regarding the necessary AML/BSA program elements, and would seek to impose minimal additional obligations on AML programs that already comply under the existing supervisory framework.

On October 23, 2020, FinCEN and the Federal Reserve invited comment on a proposed rule that would amend the recordkeeping and travel rules under the Bank Secrecy Act, which would lower the applicable threshold from $3,000 to $250 for international transactions and apply these rules to transactions using convertible virtual currencies and digital assets with legal tender status.

On January 1, 2021, Congress enacted the Anti-Money Laundering Act of 2020 and the Corporate Transparency Act (collectively, the "AML Act"), to strengthen anti-money laundering and countering terrorism financing programs. Among other things, the AML Act:

- specifies uniform disclosure of beneficial ownership information for all U.S. and foreign entities conducting business in the U.S.;
- increases potential fines and penalties for BSA violations and improves whistleblower incentives;
- codifies the risk-based approach to AML compliance;
- modernizes AML systems;
- expands the duties and powers FinCEN; and
- emphasizes coordination and information-sharing among financial institutions, U.S. financial regulators and foreign financial regulators.

The Corporate Transparency Act (the"CTA") was adopted as Title LXIV of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021. FinCEN adopted a final regulation as 31 C.F.R. 101.380 on September 30, 2022 to implement the CTA. This became effective on January 1, 2024. These regulations require entities to report information about their beneficial owners and the individuals who created the entity (together, "beneficial ownership information" or "BOI"). FinCEN explained that the proposed rule would help protect the U.S. financial system from illicit use by making it more difficult for bad actors to conceal their financial activities through entities with opaque ownership structures. FinCEN also explained that the proposed reporting obligations would provide essential information to law enforcement and others to help prevent corrupt actors, terrorists, and proliferators from hiding money or other property in the United States." The new rules expand financial institutions' obligations under the Customer Due Diligence Rule ("CDD Rule") to collect information and verify the beneficial ownership of legal entities. Although the Company and the Bank are exempt from the CTA's requirements to report their respective beneficial owners, the new laws are likely to increase the Bank's anti-money laundering diligence activities and costs.

FinCEN published a request for information and comment on December 15, 2021 seeking ways to streamline, modernize the United States AML and countering the financing of terrorists.

The United States has imposed various sanctions upon various foreign countries, such as China, Iran, North Korea, Russia and Venezuela, and their certain government officials and persons. Banks are required to comply with these sanctions, which require additional customer screening and transaction monitoring.

Russia's February 2022 invasion of Ukraine has generated a significant number of new sanctions on Russia, Russian persons and suppliers of military or dual-purpose products to Russia, The Federal bank regulators have issued alerts that Russia and others may step up cyber-attacks and data intrusions following the invasion. FinCen has issued four alerts on potential Russian illicit financial activity since February 2022. On January 25, 2023 FinCEN issued an alert to financial institutions on potential investments in the U.S. commercial real estate sector by sanctioned Russian elites, oligarchs, their family members, and the entities through which they act. The alert listed potential red flags and typologies involving attempted sanctions evasion in the commercial real estate sector, and reminds financial institutions of their Bank Secrecy Act (BSA) reporting obligations.

H.R. 1164, the OFAC Outreach and Engagement Capabilities and Enhancement Act, was introduced in Congress on February 24, 2023. It would set up a review of and improve OFAC outreach and communications to assist financial institutions to better understand and comply with OFAC sanctions.

Other Laws and Regulations

The Company is also required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as related rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board and Nasdaq. In particular, the Company is required to report annually on internal controls as part of its annual report pursuant to Section 404 of the Sarbanes-Oxley Act.

The Company has evaluated its controls, including compliance with the SEC and FDIC rules on internal controls, and expects to continue to spend significant amounts of time and money on compliance with these rules. If the Company fails to comply with these internal control rules in the future, it may materially adversely affect its reputation, its ability to obtain the necessary certifications to its financial statements, its relations with its regulators and other financial institutions with which it deals, and its ability to access the capital markets and offer and sell Company securities on terms and conditions acceptable to the Company. The Company's assessment of its financial reporting controls as of December 31, 2022 are included in this report with no material weaknesses reported.

Bank Dividends

The Company is a legal entity separate and distinct from the Bank. Federal Reserve Regulation Q limits "distributions," including discretionary bonus payments from eligible retained income" by state member banks, such as the Bank, unless its capital conservation buffer of common equity Tier 1 capital ("CET1") exceeds 2.5%. "Distributions" include dividends declared or paid on common stock, discretionary bonuses and stock repurchases, redemptions or repurchases of Tier 2 capital instruments (unless replaced by a capital instrument in the same quarter). "Eligible retained income" for the Bank and other Federal Reserve regulated institutions is the greater of:

- net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income; or
- the average net income over the preceding four quarters.

The Company's primary source of cash is dividends from the Bank. The Bank's Call Report are used for its calculation of "eligible retained income."

The Bank's capital conservation buffer exceeded 2.5% at December 31, 2023.

As of December 31, 2023, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. Management has not received any notification from the Bank's regulators that changes the Bank's regulatory capital status.

Prior regulatory approval also is required by statute if the total of all dividends declared by a state member bank (such as the Bank) in any calendar year will exceed the sum of such bank's net profits for the year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. During 2023, the Bank paid total cash dividends of approximately $3.8 million to the Company. At December 31, 2023, the Bank had net profits for the year and its retained net profits for the preceding two calendar years, less any required transfers to surplus, of $8.2 million.

In addition, the Company and the Bank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. The appropriate federal and state regulatory authorities are authorized to determine when the payment of dividends would be an unsafe or unsound practice, and may prohibit such dividends. The Federal Reserve has indicated that paying dividends that deplete a state member bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve has indicated that depository institutions and their holding companies should generally pay dividends only out of current year's operating earnings. See "Regulatory Capital Changes" and Note 16 to the Company's consolidated financial statements.

Federal Reserve Supervisory Letter SR-09-4 (February 24, 2009), as revised December 21, 2015, applies to dividend payments, stock redemptions and stock repurchases. Prior consultation with the Federal Reserve supervisory staff is required before:

- redemptions or repurchases of capital instruments when the bank holding company is experiencing financial weakness; and
- redemptions and purchases of common or perpetual preferred stock which would reduce such Tier 1 capital at end of the period compared to the beginning of the period.

Bank holding company directors must consider different factors to ensure that its dividend level is prudent relative to maintaining a strong financial position, and is not based on overly optimistic earnings scenarios, such as potential events that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company's dividends if:

- its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or
- It will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Capital

The Federal Reserve has risk-based capital guidelines for bank holding companies and state member banks, respectively. These guidelines required, beginning December 31, 2019, a minimum ratio of capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) and capital conservation buffer, totaling 10.5%. Tier 1 capital includes common equity and related retained earnings and a limited amount of qualifying preferred stock, less goodwill and certain core deposit intangibles. Voting common equity must be the predominant form of capital. Tier 2 capital consists of non–qualifying preferred stock, qualifying subordinated, perpetual, and/or mandatory convertible debt, term subordinated debt and intermediate term preferred stock, up to 45% of pretax unrealized holding gains on available for sale equity securities with readily determinable market values that are prudently valued, and a limited amount of general loan loss allowance. Tier 1 and Tier 2 capital equals total capital.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies not subject to the Small BHC Policy, and state member banks, which provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets ("leverage ratio") equal to 4%. However, bank regulators expect banks and bank holding companies to operate with a higher leverage ratio. The guidelines also provide that institutions experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Higher capital may be required in individual cases and depending upon a bank holding company's risk profile. All bank holding companies and banks are expected to hold capital commensurate with the level and nature of their risks including the volume and severity of their problem loans.

Lastly, the Federal Reserve's guidelines indicate that the Federal Reserve will continue to consider a "tangible Tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or new activities. The level of Tier 1 capital to risk-adjusted assets is becoming more widely used by the bank regulators to measure capital adequacy. The Federal Reserve has not advised the Company or the Bank of any specific minimum leverage ratio or tangible Tier 1 leverage ratio applicable to them. Under Federal Reserve policies, bank holding companies are generally expected to operate with capital positions well above the minimum ratios. The Federal Reserve believes the risk-based ratios do not fully take into account the quality of capital and interest rate, liquidity, market and operational risks. Accordingly, supervisory assessments of capital adequacy may differ significantly from conclusions based solely on the level of an organization's risk-based capital ratio.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, requires the federal banking agencies to take "prompt corrective action" regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. *See* "Prompt Corrective Action Rules."

Basel III Capital Rules

The Federal Reserve and the other bank regulators adopted in June 2013 final capital rules for bank holding companies and banks implementing the Basel Committee on Banking Supervision's "Basel III: A Global Regulatory Framework for more Resilient Banks and Banking Systems." These U.S. capital rules are called the "Basel III Capital Rules," and generally were fully phased-in on January 1, 2019. These are included in Federal Reserve Regulation Q.

The Basel III Capital Rules limit Tier 1 capital to common stock and noncumulative perpetual preferred stock, as well as certain qualifying trust preferred securities and cumulative perpetual preferred stock issued before May 19, 2010, each of which were grandfathered in Tier 1 capital for bank holding companies with less than $15 billion in assets. The Company had no qualifying trust preferred securities or cumulative preferred stock outstanding at December 31, 2021 or 2022. The Basel III Capital Rules also introduced a new capital measure, "Common Equity Tier I Capital" or "CET1." CET1 includes common stock and related surplus, retained earnings, and subject to certain adjustments, minority common equity interests in subsidiaries. CET1 is reduced by deductions for:

- Goodwill and other intangibles, other than mortgage servicing assets ("MSRs"), which are treated separately, net of associated deferred tax liabilities ("DTLs");
- Deferred tax assets ("DTAs") arising from operating losses and tax credit carryforwards net of allowances and DTLs;
- Gains on sale from any securitization exposure; and
- Defined benefit pension fund net assets (i.e., excess plan assets), net of associated DTLs.

The Company made a one-time election in 2015 and, as a result, the Company's CET1 is not adjusted for certain accumulated other comprehensive income ("AOCI").

Additional "threshold deductions" of the following that are individually greater than 10% of CET1 or collectively greater than 15% of CET1 (after the above deductions are also made):

- MSAs, net of associated DTLs;
- DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, net of any valuation allowances and DTLs; and
- Significant common stock investments in unconsolidated financial institutions, net of associated DTLs.

Noncumulative perpetual preferred stock and Tier 1 minority interest not included in CET1, subject to limits, will qualify as additional Tier I capital. All other qualifying preferred stock, subordinated debt and qualifying minority interests will be included in Tier 2 capital.

Regulatory Capital Changes

Simplification

The federal bank regulators issued final rules on July 22, 2019 simplifying their capital rules. The last of these changes become effective on April 1, 2020. The principal changes for standardized approaches institutions, such the Company and the Bank are:

- Deductions from capital for certain items, such as temporary difference DTAs, MSAs and investments in unconsolidated subsidiaries were decreased to those amounts that individually exceed 25% of CET1;
- Institutions can elect to deduct investments in unconsolidated subsidiaries or subject them to capital requirements; and
- Minority interests would be includable up to 10% of (i) CET1 capital, (ii) Tier 1 capital and (iii) total capital.

Table of Contents

HVCRE

In December 2019, the federal banking regulators published a final rule, effective April 1, 2020, to implement the "high volatility commercial real estate," or "HVCRE" changes in Section 214 of the 2018 Growth Act. Any HVCRE exposure excludes loans made before January 1, 2015. The rules define HVCRE loans as loans secured by land or improved real property that:

- primarily finance or refinance the acquisition, development, or construction of real property;
- the purpose of such loans must be to acquire, develop, or improve such real property into income producing property; and
- the repayment of the loan must depend on the future income or sales proceeds from, or refinancing of, such real property.

Various exclusions from HVCRE are specified. The full value of any borrower contributed land (net of any liens on the land securing HVCRE exposure) count toward the 15% capital contribution to the appraised as completed value, which is one of the criteria for exemption form the heightened risk weight. Banking institutions and their holding companies are required to assign 150% risk weight to HVCRE loans.

Capital Conservation Buffer

In addition to the minimum risk-based capital requirements, a "capital conservation buffer" of CET1 capital of at least 2.5%, is required. The capital conservation buffer will be calculated as the *lowest* of:

- the banking organization's CET1 capital ratio minus 4.5%;
- the banking organization's tier 1 risk-based capital ratio minus 6.0%; and
- the banking organization's total risk-based capital ratio minus 8.0%.

Full compliance with the capital conservation buffer was required beginning January 1, 2019. Thereafter, permissible dividends, stock repurchases and discretionary bonuses will be limited to the following percentages based on the capital conservation buffer as calculated above, subject to any further regulatory limitations, including those based on risk assessments and enforcement actions:

Capital Conservation Buffer %	Buffer % Limit
More than 2.50%	None
> 1.875% - 2.50%	60.0%
> 1.250% - 1.875%	40.0%
> 0.625% - 1.250%	20.0%
≤ 0.625	- 0 -

On March 20, 2020, the Federal Reserve and the other federal banking regulators adopted an interim final rule that amended the capital conservation buffer in light of the disruptive effects of the COVID-19 pandemic. This clarifying rule revises the definition of "eligible retained income" for purposes of the maximum payout ratio to allow banking organizations to more freely use their capital buffers to promote lending and other financial intermediation activities, by making the limitations on capital distributions more gradual. The eligible retained income, as used in the Federal Reserve's Regulation Q capital rule, as corrected on January 13, 2021, is the greater of (i) net income for the four preceding quarters, net of distributions and associated tax effects not reflected in net income; and (ii) the average of all net income over the preceding four quarters. Banking organizations were encouraged to make prudent capital distribution decisions.

Table of Contents

Basel III Capital

The various capital elements and total capital under the Basel III Capital Rules, as fully phased in on January 1, 2019 are:

	Fully Phased In January 1, 2019
Minimum CET1	4.50%
CET1 Conservation Buffer	2.50%
Total CET1	7.0%
Deductions from CET1	100%
Minimum Tier 1 Capital	6.0%
Minimum Tier 1 Capital *plus* conservation buffer	8.5%
Minimum Total Capital	8.0%
Minimum Total Capital *plus* conservation buffer	10.5%

Changes in Risk-Weightings

The Basel III Capital Rules significantly change the risk weightings used to determine risk weighted capital adequacy. Among various other changes, the Basel III Capital Rules apply a 250% risk-weighting to MSRs, DTAs that cannot be realized through net operating loss carrybacks and significant (greater than 10%) investments in other financial institutions. A 150% risk-weighted category applies to "high volatility commercial real estate loans," or "HVCRE," which are credit facilities for the acquisition, construction or development of real property, excluding one-to-four family residential properties or commercial real estate projects where: (i) the loan-to-value ratio is not in excess of interagency real estate lending standards; and (ii) the borrower has contributed capital equal to not less than 15% of the real estate's "as completed" value before the loan was made.

The Basel III Capital Rules also changed some of the risk weightings used to determine risk-weighted capital adequacy. Among other things, the Basel III Capital Rules:

- Assigned a 250% risk weight to MSRs;
- Assigned up to a 1,250% risk weight to structured securities, including private label mortgage securities, trust preferred CDOs and asset backed securities;
- Retained existing risk weights for residential mortgages, but assign a 100% risk weight to most commercial real estate loans and a 150% risk-weight for HVCRE;
- Assigned a 150% risk weight to past due exposures (other than sovereign exposures and residential mortgages);
- Assigned a 250% risk weight to DTAs, to the extent not deducted from capital (subject to certain maximums);
- Retained the existing 100% risk weight for corporate and retail loans; and
- Increased the risk weight for exposures to qualifying securities firms from 20% to 100%.

In December 2019 the federal bank regulators revised their definition of HVCRE and related capital requirements consistent with Section 214 of the 2018 Growth Act.

The Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" on June 16, 2016, which changed the loss model to take into account current expected credit losses ("CECL") in place of the incurred loss method. The Federal Reserve and the other federal banking agencies adopted rules effective on April 1, 2019 that allows banking organizations to phase in the regulatory capital effect of a reduction in retained earnings upon adoption of CECL over a three-year period. On May 8, 2020, the agencies issued a statement describing the measurement of expected credit losses using the CECL methodology, and updated concepts and practices in existing supervisory guidance that remain applicable. CECL became effective for the Company beginning January 1, 2023.

Federal Reserve Capital Review

The Federal Reserve's Vice Chair for Supervision has indicated he is considering a holistic review of regulatory capital requirements, which are expected to focus on banking organizations larger than the Company.

Prompt Corrective Action Rules

All of the federal bank regulatory agencies' regulations establish risk-adjusted measures and relevant capital levels that implement the "prompt corrective action" standards. The relevant capital measures are the total risk-based capital ratio, Tier 1 risk-based capital ratio, Common equity tier 1 capital ratio, as well as the leverage capital ratio. Under the regulations, a state member bank will be:

- well capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a Common equity tier 1 capital ratio of 6.5% or greater, a leverage capital ratio of 5% or greater and is not subject to any written agreement, order, capital directive or prompt corrective action directive by a federal bank regulatory agency to maintain a specific capital level for any capital measure;
- "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a Common Equity Tier 1 capital ratio of 4.5% or greater, and generally has a leverage capital ratio of 4.0% or greater;
- "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a Common Equity Tier 1 capital ratio of less than 4.5% or generally has a leverage capital ratio of less than 4.0%;
- "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a Common Equity Tier 1 capital ratio of less than 3%, or a leverage capital ratio of less than 3.0%; or
- "critically undercapitalized" if its tangible equity is equal to or less than 2.0% to total assets.

The federal bank regulatory agencies have authority to require additional capital where they determine it is necessary, including where a bank is unsafe or unsound condition or where the bank is determined to have less than a satisfactory rating on any of its CAMELS ratings. The regulators have confirmed that higher capital levels may be required in light of market conditions and risk.

Depository institutions that are "adequately capitalized" for bank regulatory purposes must receive a waiver from the FDIC prior to accepting or renewing brokered deposits, and cannot pay interest rates or brokered deposits that exceeds market rates by more than 75 basis points. Banks that are less than "adequately capitalized" cannot accept or renew brokered deposits. FDICIA generally prohibits a depository institution from making any capital distribution, including paying dividends or any management fee to its holding company, if the depository institution thereafter would be "undercapitalized". Institutions that are "undercapitalized" are subject to growth limitations and are required to submit a capital restoration plan for approval.

A depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of 5% of the depository institution's total assets at the time it became undercapitalized and the amount necessary to bring the institution into compliance with applicable capital standards. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized". If the controlling holding company fails to fulfill its obligations under FDICIA and files (or has filed against it) a petition under the federal Bankruptcy Code, the claim against the holding company's capital restoration obligation would be entitled to a priority in such bankruptcy proceeding over third-party creditors of the bank holding company.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized", requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator. Because the Company and the Bank exceed applicable capital requirements, Company and Bank management do not believe that the prompt corrective action provisions of FDICIA have had or are expected to have any material effect on the Company and the Bank or their respective operations.

Community Bank Leverage Ratio Framework

Section 201 of the 2018 Growth Act provides that banks and bank holding companies with consolidated assets of less than $10 billion that meet a "community bank leverage ratio," established by the federal bank regulators as part of the community bank leverage ratio framework ("CBLR"). The federal banking agencies have the discretion to determine that an institution does not qualify for such treatment due to its risk profile. An institution's risk profile may be assessed by its off-balance sheet exposure, trading of assets and liabilities, notional derivatives' exposure, and other methods.

The CBLR framework which became effective January 1, 2020, allows qualifying CBOs to adopt a simple leverage ratio to measure capital adequacy. The CBLR may be elected by depository institutions and their holding companies and is intended to reduce regulatory burdens for qualifying community banking organizations that do not use advanced approaches capital measures, and otherwise qualify. Eligible institutions must have:

- less than $10 billion of assets;
- a leverage ratio greater than 9%;
- off-balance sheet exposures of 25% or less of total consolidated assets; and
- trading assets plus trading liabilities of less than 5% of total consolidated assets.

The CBLR leverage ratio is Tier 1 capital divided by average total consolidated asset for the latest quarter, taking into account the capital simplification discussed above and the CECL related capital transitions.

A CBLR banking organization with a ratio above the requirement will not be subject to other capital and leverage requirements. If elected by a banking organization, The CBLR leverage ratio will be the sole capital measure, and electing institutions will not have to calculate or use any other capital measure for regulatory purposes. The Company has not adopted the CBLR, although it believes it is eligible to elect to use the CBLR framework. Management believes that current risk-based capital measures are useful and reflect the risks of the Company's earning assets in a manner most comparable to other banking organizations and which may be useful to investors. It may consider the CBLR in the future.

FDICIA

FDICIA directs that each federal bank regulatory agency prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth composition, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value for publicly traded shares, safety and soundness, and such other standards as the federal bank regulatory agencies deem appropriate.

Enforcement Policies and Actions

The Federal Reserve and the Alabama Superintendent examine and regulate our compliance with laws and regulations, including the CFPB's regulations. The CFPB issues regulations, interpretations and enforcement actions under the laws applicable to consumer financial products and services. Violations of laws and regulations, including those administered by the CFPB, or other unsafe and unsound practices, may result in the Federal Reserve and the Alabama Superintendent imposing fines, penalties and/or restitution, cease and desist orders, or taking other formal or informal enforcement actions. Under certain circumstances, these agencies may enforce these remedies directly against officers, directors, employees and others participating in the affairs of a bank or bank holding company, in the form of fines, penalties, or the recovery, or claw-back, of compensation.

Fiscal and Monetary Policies

Banking is a business that depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and its other borrowings, and the interest received by a bank on its loans and securities holdings, constitutes the major portion of a bank's earnings. Thus, the earnings and growth of the Company and the Bank, as well as the values of, and earnings on, its assets and the costs of its deposits and other liabilities are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of money through various means, including open market dealings in United States government securities, the setting of discount rate at which banks may borrow from the Federal Reserve, and the reserve requirements on deposits.

Table of Contents

The Federal Reserve has been paying interest on depository institutions' required and excess reserve balances since October 2008. The payment of interest on excess reserve balances was expected to give the Federal Reserve greater scope to use its lending programs to address conditions in credit markets while also maintaining the federal funds rate close to the target rate established by the Federal Open Market Committee. The Federal Reserve has indicated that it may use this authority to implement a mandatory policy to reduce excess liquidity, in the event of inflation or the threat of inflation.

In April 2010, the Federal Reserve Board amended Regulation D (Reserve Requirements of Depository Institutions) authorizing the Reserve Banks to offer term deposits to certain institutions. Term deposits, which are deposits with specified maturity dates, will be offered through a Term Deposit Facility. Term deposits will be one of several tools that the Federal Reserve could employ to drain reserves when policymakers judge that it is appropriate to begin moving to a less accommodative stance of monetary policy.

In 2011, the Federal Reserve repealed its historical Regulation Q to permit banks to pay interest on demand deposits.

In light of disruptions in economic conditions caused by the outbreak of COVID-19 and the stress in U.S. financial markets, the Federal Reserve, Congress and the Department of the Treasury took a host of fiscal and monetary measures to minimize the economic effect of COVID-19. On March 3, 2020, the Federal Reserve reduced the Federal Funds rate target by 50 basis points to 1.00-1.25%. The Federal Reserve further reduced the Federal Funds Rate target by an additional 100 basis points to 0-0.25% on March 16, 2020. The Federal Reserve established various liquidity facilities pursuant to section 13(3) of the Federal Reserve Act to help stabilize the financial system and purchased large amounts of government and mortgaged backed securities.

The CARES Act provided a $2 trillion stimulus package and various measures to provide relief from the COVID-19 pandemic, including:

- The Paycheck Protection Program ("PPP"), which expands eligibility for special new SBA guaranteed loans, forgivable loans and other relief to small businesses affected by COVID-19.
- A new $500 billion federal stimulus program for air carriers and other companies in severely distressed sectors of the American economy. The lending programs impose stock buyback, dividend, executive compensation, and other restrictions on direct loan recipients.
- Optional temporary suspension of certain requirements under ASC 340-10 TDR classifications for a limited period of time to account for the effects of COVID-19.
- The creation of rapid tax rebates and expansion of unemployment benefits to provide relief to individuals.
- Substantial federal spending and significant changes for health care companies, providers, and patients.
- Over $525 billion of PPP loans were made in 2020.

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the "Economic Aid Act") was signed into law. The Economic Aid Act provided a second $900 billion stimulus package, including $325 billion in additional PPP loans, changed the eligibility rules to focus more on smaller business, further enhances other Small Business Association programs.

During 2021 and at the beginning of 2022, the Federal Reserve described inflation as "transitory," but as inflation continued at increasing rates the Federal Reserve's policy changed. The Federal Reserve announced a 25 basis point increase in the target federal funds range on March 17, 2022, the first change since March 2020 when the target was set to 0-0.25%. Further increases were announced in 2022: 50 basis points on May 4, 75 basis points on each of June 15, July 27, September 21, and November 2, and 50 basis points on December 14, 2022. During 2023, the Federal Reserve announced additional target rate increases of 25 basis points on each of February 1, 2023, March 2022, May 3 and July 26, 2023. The federal funds target rate range remains at 5.25-5.50% at March 12, 2024.

Table of Contents

The Federal Reserve's securities holdings in its System Open Market Account ("SOMA") increased from $4.1 trillion on December 30, 2019 to $9.0 trillion at April 11, 2021, largely as a result of securities purchases as the Federal Reserve injected liquidity as a result of the COVID-19 pandemic. On May 4, 2022, the Federal Reserve announced its plan to reduce its securities holdings in an effort to reduce inflation:

- Reinvestments of principal of maturing Treasury securities would be reduced by $30 billion per month for three months and thereafter would be $80 billion per month.
- Reinvestments of principal of maturing agency debt and mortgage-backed securities would be reduced by $17.5 billion per month for three months and thereafter would be $35 billion per month.
- These declines would slow and then stop when the Federal Reserve's balance sheet was somewhat above the balance it deemed ample.

The Federal Reserve's SOMA was $7.0 trillion on February 28, 2024 compared to $8.4 trillion on February 13, 2023.

The Federal Reserve seeks to target longer term inflation of 2% based on annual changes in the personal consumption expenditures. The Federal Reserve stated on February 1, 2023 that its Federal Open Market Committee is highly attentive to inflation risks and the war in Ukraine is contributing to elevated global uncertainty. Inflation remained above that rate through February 2023. The Chairman of the Federal Reserve's testimony to the Senate Banking Committee on March 7, 2023 that inflation remains well above the target, gross domestic product in 2022 was 0.9%, below the trend. Higher rates have adversely affected the housing sector and combined with slower output growth, "appear to be weighing on business fixed investment." The labor market is "extremely tight." The Chairman concluded:

"We continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. In addition, we are continuing the process of significantly reducing the size of our balance sheet. Although inflation has been moderating in recent months, the process of getting inflation back down to 2% has a long way to go and is likely to be bumpy. As I mentioned, the latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated. If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes. Restoring price stability will likely require that we maintain a restrictive stance of monetary policy for some time."

Although the Federal Reserve Chairman continues to maintain the 2% long term target inflation, he has indicated that the Federal Reserve is "data dependent" and that it could cut rates depending on the data and whether recent declines in inflation appear sustained, and alternatively, raise rates if appropriate in pursuit of its long term target inflation. The nature and timing of these ongoing changes in monetary policies and their effects on the Company and the Bank cannot be predicted.

On March 12, 2023, as a result of unrealized securities losses resulting from increased market rates, liquidity issues at two banks with over $100 billion of assets which failed, the Federal Reserve established a new Bank Term Funding Program ("BTFP"). The BTFP offered loans of up to one year to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets were valued at par and the margin was 100% of par. The BTFP expires March 11, 2024, except for loans outstanding prior to its expiration. The Company did not participate in the BTFP in 2023.

The Federal Reserve on March 12, 2023 stated that depository institutions also may obtain liquidity against a wide range of collateral through the Federal Reserve's discount window, which was available with the same collateral margins as the BTFP, but which offers loans of up to 90 days. Collateral is valued under the discount window is based on fair market values, collateral margins subsequently have been reduced to less than 100% of collateral fair market value, with the amount of discount depending on the type of collateral.

FDIC Insurance Assessments

The Bank's deposits are insured by the FDIC's DIF, and the Bank is subject to FDIC assessments for its deposit insurance.

Since 2011, and as discussed above under "Recent Regulatory Developments", the FDIC has been calculating assessments based on an institution's average consolidated total assets less its average tangible equity (the "FDIC Assessment Base") in accordance with changes mandated by the Dodd-Frank Act. The FDIC changed its assessment rates which shifted part of the burden of deposit insurance premiums toward depository institutions relying on funding sources other than deposits.

Table of Contents

In 2016, the FDIC again changed its deposit insurance pricing and eliminated all risk categories and now uses "financial ratios method" based on CAMELS composite ratings to determine assessment rates for small established institutions with less than $10 billion in assets ("Small Banks"). The financial ratios method sets a maximum assessment for CAMELS 1 and 2 rated banks, and set minimum assessments for lower rated institutions. All basis points are annual amounts.

The following table shows the FDIC assessment schedule for Small Banks, such as the Bank, for the first assessment period of 2023 to be billed in June 2023, which is the latest available:

	Established Small Institution CAMELS Composite		
	1 or 2	3	4 or 5
Initial Base Assessment Rule	5 to 18 basis points	8 to 32 basis points	18 to 32 basis points
Unsecured Debt Adjustment. Cannot exceed the lesser of 5 basis points or 50% of the bank's initial FDIC assessment rate	-5 to 0 basis points	-5 to 0 basis points	-5 to 0 basis points
Brokered Deposit Adjustment	N/A	N/A	N/A
Total Base Assessment Rate	2.5 to 18 basis points	4 to 32 basis points	13 to 32 basis points

As shown above. these assessments are adjusted based on the bank's CAMELS rating. For example, Small Banks, with CAMELS ratings of 1 or 2, have a current total assessment rate of 2.5 to 18 basis points for the period to be billed in June 2023.

The FDIC issued a special assessment of 3.36 basis points for a projected eight quarters on large banks with more than $5 billion of uninsured deposits as a result of the systemic risk determination to insure all depositors in connection with the March 2023 failures of Silicon Valley Bank and Signature Bank. These special assessments do not apply to the Bank.

The minimum FDIC's DIF reserve ratio is 1.35%, which was set by the Dodd-Frank Act. The FDIC Board of directors is required by the Federal Deposit Insurance Act to designate a reserve ratio before the beginning of each calendar year. There is no upper limit on the reserve ratio and thus, no statutory limit on the size of the fund. The FDI Act provides for dividends from the fund when the reserve ratio exceeds 1.5 percent, but grants the Board sole discretion in determining whether to suspend or limit the declaration or payment of dividends. The reserve ratio reached 1.36% on September 30, 2018, exceeding the minimum requirement. As a result, deposit insurance surcharges on Large Banks ceased, and smaller banks received credits against their deposit assessments from the FDIC for their portion of assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%. The Bank's credit was $0.2 million, and was received and applied against the Bank's deposit insurance assessments during 2019 and 2020.

Because of the extraordinary growth in deposits in the first six months of 2020 due to the pandemic and government stimulus, the DIF's reserve ratio declined below 1.35% to 1.30%. The FDIC issued a restoration plan on September 15, 2020 designed to restore the reserve ratio to at least the statutory minimum of 1.35% within 8 years. Although the FDIC, at that time, maintained its then current assessment rates, the FDIC may increase deposit assessment rates by up to two basis points without notice, or more following notice and a comment period, to meet the required reserve ratio. The designated reserve ratio has been 2% since 2010, and was set at this same level for 2024.

On June 22, 2020, the FDIC issued a final rule designed to mitigate the deposit insurance assessment effect of the PPP and the related liquidity programs (the "PPPLF") established by the Federal Reserve. Specifically, the rule removes the effects of participating in PPP and liquidity facilities from the various risk measures used to calculate assessment rates and provides an offset to assessments for the increase in assessment base rates attributed to participation in the PPP and liquidity facilities. This had a limited effect on the Bank since it had only one PPP loan of approximately $0.1 million outstanding on December 31, 2023, and because the Bank never participated in the PPPLF.

The Company recorded FDIC insurance premiums expenses of $0.5 and $0.3 million in 2023 and 2022, respectively, which reflects the FDIC's amended restoration plan increases in the initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning with the first quarterly assessment period of 2023.

Lending Practices

CRE

The federal bank regulatory agencies released guidance in 2006 on "Concentrations in Commercial Real Estate Lending" (the "CRE Guidance"). The CRE Guidance defines CRE loans as exposures secured by raw land, land development and construction (including 1-4 family residential construction), multi-family property, and non-farm nonresidential property where the primary or a significant source of repayment is derived from rental income associated with the property (that is, loans for which 50% or more of the source of repayment comes from third party, non-affiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of this property. Loans to REITs and unsecured loans to developers that closely correlate to the inherent risks in CRE markets would also be considered CRE loans under the CRE Guidance. Loans on owner occupied CRE are generally excluded. In December 2015, the Federal Reserve and other bank regulators issued an interagency statement to highlight prudent risk management practices from existing guidance that regulated financial institutions and made recommendations regarding maintaining capital levels commensurate with the level and nature of their CRE concentration risk.

The CRE Guidance requires that banks have appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. This could include enhanced strategic planning, CRE underwriting policies, risk management, internal controls, portfolio stress testing and risk exposure limits as well as appropriately designed compensation and incentive programs. Higher allowances for loan losses and capital levels may also be required. The CRE Guidance is triggered when either:

- Total reported loans for construction, land development, and other land of 100% or more of a bank's total capital; or
- Total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land are 300% or more of a bank's total risk-based capital.

This CRE Guidance was supplemented by the Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending (December 18, 2015). The CRE Guidance also applies when a bank has a sharp increase in CRE loans or has significant concentrations of CRE secured by a particular property type. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Balance Sheet Analysis" for concentrations of the various types of CRE loans.

At December 31, 2023, the Bank had outstanding $68.3 million in construction and land development loans and $293.0 million in total CRE loans (excluding owner occupied properties), which represent approximately 62% and 264%, respectively, of the Bank's total risk-based capital at December 31, 2023. The Company has always had significant exposures to loans secured by commercial real estate due to the nature of its markets and the loan needs of both its retail and commercial customers. The Company believes its long-term experience in CRE lending, underwriting policies, internal controls, and other policies currently in place, as well as its loan and credit monitoring and administration procedures, are generally appropriate to manage its concentrations as required under the Guidance.

The Federal Reserve joined the other depository institution regulators in issuing a Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts on June 30, 2023. This Policy Statement builds on and updates existing guidance to enable financial institutions to work prudently and constructively with creditworthy borrowers during times of financial stress. The Policy Statement provides a broad set of risk management principles relevant to CRE short term loan accommodations and longer term workouts in all business cycles, particularly in challenging economic environments. It states that the regulatory agencies expect their examiners to take a balanced approach in assessing the adequacy of a financial institution's risk management practices for loan accommodation and workout activities. Financial institutions that implement prudent CRE loan accommodation and workout arrangements after performing a comprehensive review of a borrower's financial condition will not be subject to criticism for engaging in these efforts, even if these arrangements result in modified loans that have weaknesses that result in adverse classification. In addition, modified loans to borrowers who have the ability to repay their debts according to reasonable terms will not be subject to adverse classification solely because the value of the underlying collateral has declined to an amount that is less than the outstanding loan balance. The Policy Statement also describes the classifications of CRE loan accommodations and workouts and addresses regulatory accounting and reporting in such situations, including CECL.

Table of Contents

Leveraged Lending

In 2013, the Federal Reserve and other banking regulators issued their "Interagency Guidance on Leveraged Lending" highlighting standards for originating leveraged transactions and managing leveraged portfolios, as well as requiring banks to identify their highly leveraged transactions, or HLTs. The Government Accountability Office issued a statement on October 23, 2017 that this guidance constituted a "rule" for purposes of the Congressional Review Act, which provides Congress with the right to review the guidance and issue a joint resolution for signature by the President disapproving it. No such action was taken, and instead, the federal bank regulators issued a September 11, 2018 "Statement Reaffirming the Role of Supervisory Guidance." This Statement indicated that guidance does not have the force or effect of law or provide the basis for enforcement actions, but this guidance can outline supervisory agencies' views of supervisory expectations and priorities, and appropriate practices. The federal bank regulators continue to identify elevated risks in leveraged loans and shared national credits.

The Bank did not have any loans at year-end 2023 or 2022 that were leveraged loans subject to the Interagency Guidance on Leveraged Lending or that were shared national credits.

Other Dodd-Frank Act Provisions

In addition to the capital, liquidity and FDIC deposit insurance changes discussed above, some of the provisions of the Dodd-Frank Act we believe may affect us are set forth below.

Executive Compensation, etc.

The Dodd-Frank Act provides shareholders of all public companies with a say on executive compensation. Under the Dodd-Frank Act, each company must give its shareholders the opportunity to vote on the compensation of its executives, on a non-binding advisory basis, at least once every three years. The Dodd-Frank Act also adds disclosure and voting requirements for golden parachute compensation that is payable to named executive officers in connection with sale transactions.

The SEC is required under the Dodd-Frank Act to issue rules obligating companies to disclose in proxy materials for annual shareholders meetings, information that shows the relationship between executive compensation actually paid to their named executive officers and their financial performance, taking into account any change in the value of the shares of a company's stock and dividends or distributions. The Dodd-Frank Act also provides that a company's compensation committee may only select a consultant, legal counsel or other advisor on methods of compensation after taking into consideration factors to be identified by the SEC that affect the independence of a compensation consultant, legal counsel or other advisor.

Section 954 of the Dodd-Frank Act added section 10D to the Exchange Act. Section 10D directs the SEC to adopt rules prohibiting a national securities exchange or association from listing a company unless it develops, implements, and discloses a policy regarding the recovery or "claw-back" of executive compensation in certain circumstances. The policy must require that, in the event an accounting restatement due to material noncompliance with a financial reporting requirement under the federal securities laws, the company will recover from any current or former executive officer any incentive-based compensation (including stock options) received during the three year period preceding the date of the restatement, which is in excess of what would have been paid based on the restated financial statements. There is no requirement of wrongdoing by the executive, and the claw-back is mandatory and applies to all executive officers. Section 954 augments section 304 of the Sarbanes-Oxley Act, which requires the CEO and CFO to return any bonus or other incentive- or equity-based compensation received during the 12 months following the date of similarly inaccurate financial statements, as well as any profit received from the sale of employer securities during the period, if the restatement was due to misconduct. Unlike section 304, under which only the SEC may seek recoupment, the Dodd-Frank Act requires the Company to seek the return of compensation.

The SEC adopted, effective January 27, 2023, Commission Rule 10D-1 under the Exchange Act, which requires each national securities exchange to adopt listing standards for the recovery of erroneously awarded executive compensation. The Commission approved Nasdaq Listing Rule 5608 ("Rule 5608") on June 9, 2023. Under Rule 10D-1, listed companies must recover from current and former executive officers' incentive-based compensation received during the three completed fiscal years preceding the date on which the issuer is required to prepare an accounting restatement.

Under these SEC and Nasdaq rules, the recovery of erroneously awarded compensation is required on a "no fault" basis, without regard to whether any misconduct occurred or an executive officer's responsibility for the erroneous financial statements. A restatement due to material noncompliance with any financial reporting requirement under the securities laws triggers application of the recovery policy. The determination regarding materiality of an error should be based on facts and circumstances and existing judicial and administrative interpretations. The proposed Nasdaq Rule requires recovery for restatements that correct errors that are material to previously issued financial statements (commonly referred to as "Big R" restatements), as well as for restatements that correct errors that are not material to previously issued financial statements but would result in a material misstatement if the errors were left uncorrected in the current report or the error correction was recognized in the current period (commonly referred to as "little r" restatement).

Nasdaq-listed companies, such as the Company, are required to recover the amount of incentive-based compensation received by an executive officer that exceeds the amount the executive officer would have received had the incentive-based compensation been determined based on the accounting restatement, computed without regard to any taxes paid. Nasdaq defines "incentive-based compensation" as any compensation that is granted, earned or vested based wholly or in part upon the attainment of any "financial reporting measure." Incentive-based compensation is deemed received on or after October 2, 2023 and in the fiscal period during which the financial reporting measure specified in the incentive-based compensation award is attained, even if the grant or payment of the incentive-based compensation occurs after the end of that period.

The Company adopted an Erroneously Awarded Executive Incentive Based Compensation Policy effective December 1, 2023 to comply with these rules.

The SEC adopted a rule in August 2013 to implement pay ratios pursuant to Section 953 of the Dodd-Frank Act comparing their CEO's total compensation to the median compensation of all other employees. These rules applied beginning to fiscal year 2017 annual reports and proxy statements. Smaller reporting companies, such as the Company, are exempted from this rule.

The Dodd-Frank Act, Section 955, requires the SEC, by rule, to require that each company disclose in the proxy materials for its annual meetings whether an employee or board member is permitted to purchase financial instruments designed to hedge or offset decreases in the market value of equity securities granted as compensation or otherwise held by the employee or board member. The SEC adopted changes to its Reg. S-K Item 407(i) implementing this Section. The Company expects to adopt appropriate policies upon shareholder approval an equity incentive plan at the Annual Stockholders' meeting in 2024.

The Company's has had no equity-based compensation plans or arrangements, but expects to seek stockholder approval of an equity incentive plan at the Annual Stockholders' meeting in 2024. The Company's insider trading policy, which applies to all Company and Bank directors, officers, employees and certain independent contractors and specified related persons (collectively, "Covered Persons"). This Policy prohibits Covered Persons, from short-selling Company securities or engaging in transactions involving Company "Derivative Securities." This prohibition includes, without limitation, trading in Company-based put option contracts, including straddles, and the like. Derivative Securities include options, warrants, restricted stock units, stock appreciation rights or similar rights whose value is derived from the value of an equity or other security, including Company Securities.

Section 956 of the Dodd-Frank Act prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions, are deemed to be excessive, or that may lead to material losses. In June 2010, the federal bank regulators adopted Guidance on Sound Incentive Compensation Policies, which, although targeted to larger, more complex organizations than the Company, includes principles that have been applied to smaller organizations similar to the Company. This Guidance applies to incentive compensation to executives as well as employees, who, "individually or a part of a group, have the ability to expose the relevant banking organization to material amounts of risk." Incentive compensation should:

- Provide employees incentives that appropriately balance risk and reward;
- Be compatible with effective controls and risk-management; and
- Be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The federal bank regulators stated that this Guidance is expected to generally have less effect on smaller banking organizations, which typically are less complex and make less use of incentive compensation arrangements than larger banking organizations.

Table of Contents

The federal bank regulators, the SEC and other regulators proposed regulations implementing Section 956 in April 2011, which would have been applicable to, among others, depository institutions and their holding companies with $1 billion or more in assets. An advance notice of a revised proposed joint rulemaking under Section 956 was published by the financial services regulators in May 2016, but these rules have not been adopted.

Following the failures of Silicon Valley Bank and Signature Bank in early March 2023, Senator Elizabeth Warren and co-sponsors, filed S.1045 "Failed Bank Executives Clawback Act." This bill provides that when a bank is placed into FDIC receivership, all or part of the compensation paid the previous five years to an institution-affiliated party responsible for the condition of the institution must be paid to FDIC to prevent unjust enrichment and to assure that the party bears losses consistent with their responsibility. Compensation includes salary, bonuses, awards, and profits from buying or selling securities. The bill also expands the FDIC's authority to claw back compensation of parties responsible for financial losses incurred by a financial company regardless of the process by which FDIC is appointed receiver.

Debit Card Interchange Fees

The "Durbin Amendment" to the Dodd-Frank Act and implementing Federal Reserve regulations provide that interchanged transaction fees for electronic debit transactions be "reasonable" and proportional to certain costs associated with processing the transactions. The Durbin Amendment and the Federal Reserve rules thereunder are not applicable to banks with assets less than $10 billion, however such banks compete with banks that are subject to the Durbin Amendment, and therefore may have to limit their interchange fees, also.

Other Legislative and Regulatory Changes

Various legislative and regulatory proposals, including substantial changes in banking, and the regulation of banks, thrifts and other financial institutions, compensation, and the regulation of financial markets and their participants, and financial instruments and securities, and the regulators of all of these, as well as the taxation of these entities, are being considered by the executive branch of the federal government, Congress and various state governments, including Alabama.

President Biden froze new rulemaking generally when he became President in January 2021, and rescinded various of his predecessor's executive orders, including the February 3, 2017 executive order containing "Core Principles for Regulating the United States Financial System" ("Core Principles"). The Core Principles directed the Secretary of the Treasury to consult with the heads of Financial Stability Oversight Council's members and report to the President periodically thereafter on how laws and government policies promote the Core Principles and to identify laws, regulations, guidance and reporting that inhibit financial services regulation.

The President has also issued an Executive Order 14036 on Promoting Competition in the American Economy (July 9, 2021), which may affect the federal bank regulators' reviews of bank and bank holding company mergers. The OCC, the FDIC and the CFPB have made proposals to further scrutinize mergers, especially where the confirming institutions have assets greater than $100 million. The President's Working Group and various agencies have also been working on the regulation of crypto assets, including stable coins, and access to the payments system.

The DoJ's Antitrust Division of the United States and the Federal Trade Commission issued revised Merger Guidelines on December 18, 2023. The DoJ, the Federal Reserve and the OCC have confirmed that these new Guidelines did not modify the 1995 Bank Merger Guidelines, however. Representatives of the Federal Reserve have indicated that updated Bank Merger Guidelines are being considered.

The 2018 Growth Act, which, was enacted on May 24, 2018, amended the Dodd-Frank Act, the BHC Act, the Federal Deposit Insurance Act and other federal banking and securities laws to provide regulatory relief in these areas:

- consumer credit and mortgage lending;
- capital requirements;
- Volcker Rule compliance;
- stress testing and enhanced prudential standards;
- increased the asset threshold under the Federal Reserve's Small BHC Policy from $1 billion to $3 billion; and
- capital formation.

We believe the 2018 Growth Act has positively affected our business. The following provisions of the 2018 Growth Act may be especially helpful to banks of our size after regulations were adopted in 2019:

- "qualifying community banks," defined as institutions with total consolidated assets of less than $10 billion, which meet a "community bank leverage ratio, which is currently 9.0%, may be deemed to have satisfied applicable risk-based capital requirements as well as the capital ratio requirements;
- section 13(h) of the BHC Act, or the "Volcker Rule," is amended to exempt from the Volcker Rule, banks with total consolidated assets valued at less than $10 billion ("community banking organizations"), and trading assets and liabilities comprising not more than 5.00% of total assets; and
- "reciprocal deposits" will not be considered "brokered deposits" for FDIC purposes, provided such deposits do not exceed the lesser of $5 billion or 20% of the bank's total liabilities.

On July 9, 2019, the federal banking agencies, together with the SEC and the Commodities Futures Trading Commission ("CFTC"), issued a final rule excluding qualifying community banking organizations from the Volcker Rule pursuant to the 2018 Growth Act. The Volcker Rule change may enable us to invest in certain collateralized loan obligations that are treated as "covered funds" and other investments prohibited to banking entities by the Volcke r Rule.

The FDIC announced on December 19, 2018 a final rule allows reciprocal deposits to be excluded from "brokered deposits" up to the lesser of $5 billion or 20% of their total liabilities. Institutions that are not both well capitalized and well rated are permitted to exclude reciprocal deposits from brokered deposits in certain circumstances.

The FDIC issued comprehensive changes to its brokered deposit rules effective April 1, 2021. The revised rules establish new standards for determining whether an entity meets the statutory definition of "deposit broker," and identifies a number of businesses that automatically meet the "primary purpose exception" from a "deposit broker." The revisions also provide an application process for entities that seek a "primary purpose exception," but do not meet one of the designated exceptions." The new rules may provide us greater future flexibility, but we had no brokered deposits at December 31, 2021 or 2022, and historically have not relied on brokered deposits.

Reciprocal deposits have expanded our funding and liquidity sources without being subjected to FDIC limitations and potential federal deposit insurance assessment increases for brokered deposits.

The applicable agencies also issued final rules simplifying the Volcker Rule's proprietary trading restrictions effective January 1, 2020. On June 25, 2020, the agencies adopted a final rule simplifying the Volcker Rule's covered fund provisions effective October 1, 2020.

On November 30, 2020, the bank regulators issued a statement urging banks to cease entering into new contracts using U.S. dollar LIBOR rates as soon as practicable and in any event by December 31, 2021, to effect orderly, and safe and sound LIBOR transition. Banks were reminded that operating with insufficient fallback interest rates could undermine financial stability and banks' safety and soundness. Any alternative reference rate may be used that a bank determines is appropriate for its funding and customer needs.

The Alabama legislature passed the "LIBOR Discontinuance and Replacement Act of 2021" which became effective on April 29, 2021. On March 15, 2022, Congress enacted the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act") as part of the Consolidated Appropriations Act, 2022. One purpose of the LIBOR Act was to establish a clear and uniform process, on a nationwide basis, for replacing LIBOR in existing contracts the terms of which do not provide for the use of a clearly defined or practicable replacement benchmark rate, without affecting the ability of parties to use any appropriate benchmark rate in new contracts. The LIBOR Act directed the Federal Reserve to issue regulations implementing the LIBOR Act. The Federal Reserve adopted final Regulation ZZ on January 26, 2023. These together with Internal Revenue Service regulation facilitate the conversion of existing LIBOR-based loans when most popular LIBOR rates cease to be quoted on June 30, 2023.

The Bank generally prices its variable rate loans based on the prime rate or the five-year Treasury note rate and had no loans bearing LIBOR or other IBOR-based rates at December 31, 2022. Therefore, the transition from LIBOR did not affect the Bank's loan portfolio.

Certain of these new rules, and proposals, if adopted, could significantly change the regulation or operations of banks and the financial services industry. New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation's financial institutions.

ITEM 1A. RISK FACTORS

Any of the following risks could harm our business, results of operations and financial condition and an investment in our stock. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Risk Factor Summary

The following summarizes the risks provided after this summary and is qualified by the more detailed discussion of "Risk Factors" that follows this Summary, and which should be read in their entirety. Our risks include operational risks, financial risks and legal and regulatory risks, which are related and intertwined as discussed more fully in the Risk Factors that follow this summary.

Operational risks are inherent in our business, and include:

- The effects of local, national and regional market and economic conditions and cyclicality, including inflation, interest rates and their effects on borrowers and markets, including real estate markets
- The risks and costs of nonperforming assets
- Our allowance for credit losses is based on estimates and judgments and may prove to be inadequate to our credit risks
- The soundness of other financial institutions and perceptions regarding our industry, especially when other banks experience difficulties or fail
- Our concentrations in commercial real estate loans in our market
- We operate in a highly competitive market against a number of larger national and regional competitors
- Future acquisitions may disrupt our business, dilute shareholder value and adversely affect our operating results and financial condition, among other risks
- Technological changes affect our business, and we may have fewer resources than various of our larger regulated and unregulated competitors, inside and outside our market area, which may increase the competition we face
- Potential gaps in our risk management, including managing the risks to us of data security and cybersecurity, including risks to our service providers could affect our results of operations, financial condition, customer relationship and reputation
- Our ability to attract and retain key people
- Risks of severe weather, natural disasters, climate changes, epidemics and severe health issues in the population, wars and acts of terrorism and other events

Financial risks result in part from our operational risks and the risk of our business, and include:

- Increases in costs of funds due to inflation, monetary and fiscal policies, changes in costumer behaviors and competitive pressures
- Our results of operations and financial condition, including the values of our assets and liquidity, may be affected by changes in interest rates and interest rate levels, the shape of the yield curve and economic conditions
- Liquidity risks, including the costs and availability of funding, and the liquidity of our assets, including our investment securities portfolio, and institutional lending sources
- Changes in accounting and tax rules
- The adequacy of our capital and availability of capital, if needed
- Potentially excessive risk taking by our associates
- Our ability to pay dividends depends on our earnings, liquidity and regulatory requirements related to our capital and our risks
- A limited trading market exists for our common stock

Legal and regulatory risks include:

- The Company is a legal entity separate and distinct from the Bank, and transactions between the Bank and the Company are limited by law
- The Company is required to be a source of financial and managerial strength to the Bank, even where further investment in the Bank may not be warranted in the circumstances
- The scope, volume and complexity of regulations and regulatory and legal changes affect us, increase the time and costs of compliance and may limit our business and adversely affect our financial condition and results of operations
- Litigation, investigations and other claims by government agencies and private parties and regulatory actions, including those related to assertions of compliance failures
- The amount of and changes in the capital we are required to maintain in respect of our business and risk, and regulatory perceptions of us and our industry
- Liquidity requirements

Operational Risks

Market conditions and economic cyclicality may adversely affect our industry.

We believe the following, among other things, may affect us in 2024:

- The COVID-19 pandemic disrupted the economy beginning late in the first quarter of 2020. Auburn University, government agencies and businesses were limited to remote work and gatherings were limited. Supply chains continue to be disrupted and labor markets remain tight. Hotels, motels, restaurants, retail and shopping centers were especially affected. COVID-19 continues, but with diminishing direct economic effects due to population health, generally. President Biden has terminated the COVID-19 national emergencies effective May 11, 2023.

- Extraordinary monetary and fiscal stimulus in 2020 and in early 2021 offset certain of the pandemic's adverse economic effects, but together with supply chain disruptions, continued consumer demand, Russia's invasion of Ukraine and its effects on energy and food prices, and tight labor markets, have resulted in inflation. Inflation is running at levels unseen in decades and well above the Federal Reserve's long term inflation goal of 2.0% annually. Beginning in March 2022, the Federal Reserve has been raising target federal funds interest rates and reducing its securities holdings in an effort to reduce inflation. The nature and timing of any future changes in monetary and fiscal policies and their effect on us cannot be predicted. At the end of 2023, many believed that the Federal Reserve would loosen its monetary policy in response to inflation, which was declining, but remained above the Fed's 2% long term target level. Strong economic data and inflation reports since then appear to have reduced expectations as to the number, timing and size of any reductions in the target federal funds rate in the near term.

- Market developments, including unemployment, price levels, stock and bond market volatility, and changes, including those resulting from Russia's invasion of Ukraine affect consumer confidence levels, economic activity and inflation. Increases in market interest rates, inflation and consumer and business confidence may cause changes in customers' savings and payment behaviors, including potential increases in loan delinquencies and default rates. These could affect our earnings and credit quality.

- Our ability to assess the creditworthiness of our customers and those we do business with, and the values of our assets and loan collateral may be adversely affected and less predictable as a result of inflation and higher market interest rates We adopted CECL on January 1, 2023 as required by generally accepted accounting principles ("GAAP"). CECL changed the loss model to take into account current expected credit losses in place of the incurred loss method used historically under GAAP. This changes the process we use to estimate losses inherent in our credit exposures. The process for estimating expected losses requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how those economic predictions might affect the ability of our borrowers to repay their loans or the value of assets. Changes in economic conditions and factors used in our CECL models may increase the variability of our provisions for loan losses and our earnings.

Nonperforming and similar assets take significant time to resolve and may adversely affect our results of operations and financial condition.

Our nonperforming loans were 0.16% of total loans as of December 31, 2023, and we had no other real estate owned as result of foreclosures or otherwise in full or partial payments in respect of loans ("OREO"). Non-performing assets may adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or OREO and these assets require higher loan administration and other costs, thereby adversely affecting our income. Decreases in the value of these assets, or the underlying collateral, or in the related borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires commitments of time from management, which can be detrimental to the performance of their other responsibilities. Our non-performing assets may be adversely affected by loan deferrals and modifications made in response to the pandemic and the moratoria on foreclosures and evictions. There can be no assurance that we will not experience increases in nonperforming loans in the future, much of which is affected by the economy and the levels of interest rates, generally.

Our allowance for loan losses may prove inadequate or we may be negatively affected by credit risk exposures.

We periodically review our allowance for loan losses for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including past charge-off experience and levels of past due loans and nonperforming assets. We cannot be certain that our allowance for loan losses will be adequate over time to cover credit losses in our portfolio because of unanticipated adverse changes in the economy, including the continuing effects of the pandemic and fiscal and monetary response to COVID-19 and the shift beginning in March 2022 from an extraordinarily expansionary monetary policies to a tightening monetary policy to fight inflation, market conditions or events adversely affecting specific customers, industries or markets, including disruptions of supply chains and the war in Ukraine, and changes in borrower behaviors. Certain borrowers and their businesses and real estate and commercial projects and businesses may be adversely affected by inflation and higher interest rates, and economic slowdowns arising from tighter monetary policies, and may request or need loan modifications and deferrals. Various businesses will be unable to fully pass on increased costs due to inflation, and their profits may shrink. If the credit quality of our customer base materially decreases, if the risk profile of the market, industry or group of customers changes materially or weaknesses in the real estate markets worsen, borrower payment behaviors change, or if our allowance for loan losses is not adequate, our business, financial condition, including our liquidity and capital, and results of operations could be materially adversely affected. CECL, a new accounting standard for estimating expected future loan losses, is effective for the Company beginning January 1, 2023, and its effects upon the Company in the current environment have not yet been determined fully due to its short existence. The CECL model incorporates various economic condition elements, where changes in fiscal and monetary policy, as well as market interest rates, could result in more volatility in our provisions for loan losses under CECL, which could adversely affect our net income.

Table of Contents

Changes in the real estate markets, including the secondary market for residential mortgage loans, may continue to adversely affect us.

Beginning in March 2022, inflation and the Federal monetary policies to increase interest rates to fight inflation have caused mortgage rates to increase significantly. Higher interest rates and the increased level of housing costs as a result of the COVID-19 pandemic, have caused housing starts and sales to slow. Inventories of existing homes for sale have remained generally low, and many believe that higher mortgage rates are adversely affecting potential sellers from selling their existing houses and incurring higher mortgage interest rates on their replacement home. These conditions have adversely affected housing affordability and increased monthly mortgage payments. House prices have begun to decline in certain markets from their earlier highs. This adversely affects our mortgage loan productions and the value of residential mortgage collateral. Commercial real estate projects' economic assumptions may be adversely affected, and certain projects with short term and/or unhedged variable rate debt may be especially affected by increased interest rates and a slower economy.

The CFPB's mortgage and servicing rules, including TRID rules for closed end credit transactions, enforcement actions, reviews and settlements, affect the mortgage markets and our mortgage operations. The CFPB requires that lenders determine whether a consumer has the ability to repay a mortgage loan have limited the secondary market for and liquidity of many mortgage loans that are not "qualified mortgages." Recently adopted changes to the CFPB's qualified mortgage rules are reportedly being reconsidered.

The Tax Cuts and Jobs Act's (the "2017 Tax Act") limitations on the deductibility of residential mortgage interest and state and local property and other taxes and federal moratoria on single-family foreclosures and rental evictions could adversely affect consumer behaviors and the volumes of housing sales, mortgage and home equity loan originations, as well as the value and liquidity of residential property held as collateral by lenders such as the Bank, and the secondary markets for single and multi-family loans. Acquisition, construction and development loans for residential development may be similarly adversely affected.

Fannie Mae and Freddie Mac ("GSEs") have been in conservatorship since September 2008. Since Fannie Mae and Freddie Mac dominate the residential mortgage markets, any changes in their operations and requirements, as well as their respective restructurings and capital, could adversely affect the primary and secondary mortgage markets, and our residential mortgage businesses, our results of operations and the returns on capital deployed in these businesses. The timing and effects of resolution of these government sponsored enterprises cannot be predicted.

We may be contractually obligated to repurchase mortgage loans we sold to third parties on terms unfavorable to us.

As part of its routine business, the Company originates mortgage loans that it subsequently sells in the secondary market, generally to Fannie Mae, a GSE. In connection with the sale of these loans, the Company makes customary representations and warranties, the breach of which may result in the Company being required to repurchase the loan or loans. Furthermore, the amount paid may be greater than the fair value of the loan or loans at the time of the repurchase. Although mortgage loan repurchase requests made to us have been limited, if these increased, we may have to establish reserves for possible repurchases and adversely affect our results of operation and financial condition.

Mortgage servicing rights requirements may change and require us to incur additional costs and risks.

The CFPB's residential mortgage servicing standards may adversely affect our costs to service residential mortgage loans. The effects of reduced housing starts and mortgage activity due to higher market interest rates, have decreased our generation of new mortgage loans and related MSRs. This may be offset partially by decreases in mortgage prepayments and refinancings, and corresponding increases in the duration of our existing MSRs and their values. This net effect could reduce our aggregate income from servicing these types of loans and make it more difficult and costly to timely realize the value of collateral securing such loans upon a borrower default. The Basel III Rules relating to MSRs may also increase the potential capital required as a result of MSRs, when considered with other capital rule adjustments and deductions.

Table of Contents

The soundness of other financial institutions could adversely affect us.

We routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, central clearinghouses, banks, including our correspondent banks and other financial institutions. Our ability to engage in routine investment and banking transactions, as well as the quality and values of our investments in holdings of other obligations of other financial institutions such as the FHLB-Atlanta, could be adversely affected by the actions, financial condition, and profitability of such other financial institutions, including the FHLB-Atlanta and our correspondent banks. Financial services institutions are interrelated as a result of shared credits, trading, clearing, counterparty and other relationships. Most LIBOR reference interest rates used by many financial institutions to price extensions of credit stopped being quoted June 30, 2023 and their use has been strongly discouraged by regulatory agencies. Most banks did not adopt CECL until January 1, 2023.

The failures of Silicon Valley Bank, Signature Bank and First Republic Bank in 2023 due to concentrations of deposits and depositors holding large amounts of deposits in excess of FDIC insurance limits, as well as flawed business models and management, adversely affected the financial system and public confidence. These have resulted in increased regulatory scrutiny of bank liquidity, funding and capital, depressed bank stock values generally, and higher FDIC deposit insurance premiums on the largest banks, as well as regulatory proposals to increase large banks' capital and expand enhanced prudential standards starting at $100 billion of assets instead of $250 billion.

The federal bank regulators have been advocating more use of the Federal Reserve discount window to improve bank liquidity. At the same time, these bank failures, together with the failure of the very small Heartland State bank in Kansas due to apparent embezzlement by its president due to losses from his personal crypto trading, have also led to calls to reduce Federal Home Loan Bank lending to banks. Traditionally, the Federal Home Loan Banks have been stable sources of liquidity and funding for banks. The Federal Housing Finance Agency ("FHFA) regulates the Federal Home Loan Banks. The FHFA's *FHLBank System at 100: Focusing on the Future* (Nov. 2023) suggest less traditional Federal Home Loan Bank lending to banks, especially banks experiencing financial stress.

These changes, together with any exposures other institutions may have to crypto or digital assets, or cybersecurity and data breaches, could cause disruption and unexpected changes in the industry. Any losses, defaults by, or failures of, the institutions we do business with could adversely affect our holdings of the equity in such other institutions, our participation interests in loans originated by other institutions, and our business, including our liquidity, financial condition and earnings.

Failures of several banks earlier in 2023 and in early 2024 have resulted in increased market volatility for financial service companies' securities and in changes in regulatory views and emphases that may adversely affect us and may not be disclosable under law.

The failures of Silicon Valley Bank, Signature Bank, First Republic and Heartland Tri-State Bank in 2023 have resulted in significant market volatility for bank stocks, and have caused uncertainty in the investor community and among bank customers, generally, greater bank regulatory scrutiny of banking organizations, especially those experiencing rapid growth and regional banks with $100 billion or more in assets. Similarly concerns about credit quality and capital adequacy at New York Community Bank following two acquisitions raised market concerns and led to replacement of management and a dilutive equity capital raise.

Changes in regulations have been proposed as part of the Basel III endgame to the capital, liquidity, long term debt and resolution planning of banking organizations with over $100 billion in assets. These failures also have resulted in market volatility in financial services securities. Regulators have focused supervisory activities, generally, at all sizes of banking organizations on various risks, especially capital adequacy and liquidity in light of growth, asset, liability and customer concentrations and risks; CRE, levels of uninsured deposits; crypto businesses and customers; strategic, capital and liquidity plans and contingency plans; and risk management. Such enhanced scrutiny is often applied as part of the regulatory examination processes, as well as through a variety of nonpublic supervisory actions such as "matters requiring attention," board of director resolutions, memoranda of understanding, and other regulatory criticism and informal supervisory actions. The bank and bank holding examination processes, as well as any nonpublic supervisory actions, are "confidential supervisory information" for regulatory purposes, whose existence and terms, if any, may not be disclosed by banking organizations.

Our concentration of commercial real estate loans could result in further increased loan losses, and adversely affect our business, earnings, and financial condition.

Commercial real estate, or CRE, is cyclical and poses risks of possible loss due to concentration levels and the risks of the assets being financed, which include loans for the acquisition and development of land and residential construction. The federal bank regulatory agencies released guidance in 2006 on "Concentrations in Commercial Real Estate Lending." The guidance defines CRE loans as exposures secured by raw land, land development and construction loans (including 1-4 family residential construction loans), multi-family property, and non-farm non-residential property, where the primary or a significant source of repayment is derived from rental income associated with the property (that is, loans for which 50% or more of the source of repayment comes from third party, non-affiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Loans to REITs and unsecured loans to developers that closely correlate to the inherent risks in CRE markets are also CRE loans. Loans on owner occupied commercial real estate are generally excluded from CRE for purposes of this guidance.

Excluding owner occupied commercial real estate, we had 39.6% of our loan portfolio in CRE loans at year-end 2023 compared to 40.4% and 42.6% at year-end 2022 and 2021, respectively. The banking regulators continue to give CRE lending scrutiny and require banks with higher levels of CRE loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as higher levels of allowances for possible losses and capital levels as a result of CRE lending growth and exposures. Increases in interest rates beginning in March 2022 may adversely affect the assumptions and performance of CRE, and the ability of borrowers to refinance on terms that CRE borrowers and their projects can support. Lower demand for CRE and fewer CRE purchase and sale transactions, and reduced availability of, and higher interest rates and costs for, CRE loans could adversely affect CRE values and liquidity, our CRE loans and sales of OREO, and therefore our earnings and financial condition, including our capital and liquidity.

Our future success is dependent on our ability to compete effectively in highly competitive markets.

The East Alabama banking markets which we operate are highly competitive and our future growth and success will depend on our ability to compete effectively in these markets. Nineteen banks, including JP Morgan Chase, Wells Fargo, Truist, PNC, Regions, Valley National and SouthState, have offices in Lee County. Eleven of these banks are headquartered outside of Alabama. We compete for loans, deposits and other financial services with other local, regional and national commercial banks, thrifts, credit unions, mortgage lenders, and securities and insurance brokerage firms. Lenders operating nationwide over the internet are growing rapidly. Many of our competitors offer products and services different from us, and have substantially greater resources, name recognition and market presence than we do, which benefits them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we are able to and have broader and more diverse customer and geographic bases to draw upon. Out of state banks may branch into our markets. Fintech and other non-bank competitors also compete for our customers, and may partner with other banks and/or seek to enter the payments system. The failures of other banks with offices in our markets could also lead to the entrance of new, stronger competitors in our markets.

Our success depends on local economic conditions.

Our success depends on the general economic conditions in the geographic markets we serve in Alabama. The local economic conditions in our markets have a significant effect on our commercial, real estate and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Adverse changes in the economic conditions of the Southeastern United States in general, or in one or more of our local markets, including the effects of higher market interest rates and inflation, supply chain disruptions, changes in customer behaviors and in the workforce and demand for space since the COVID-19 pandemic, and the timing and magnitude of future inflation and interest rates, could negatively affect our results of operations and our profitability. Our local economy is also affected by the growth of automobile manufacturing and related suppliers located in our markets and nearby. Auto sales and housing sales are cyclical and generally are affected adversely by higher interest rates.

Attractive acquisition opportunities may not be available to us in the future.

While we seek continued organic growth, including loan growth, we also may consider the acquisition of other businesses. We expect that other banking and financial companies, many of which have significantly greater resources, will compete with us to acquire financial services businesses. This competition could increase prices for potential acquisitions that we believe are attractive. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests, and regulatory approvals could contain conditions that reduce the anticipated benefits of any transaction. Among other things, our regulators consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Any acquisition could be dilutive to our earnings and shareholders' equity per share of our common stock. The regulatory agencies are carefully scrutinizing financial institution mergers, and the merger application process has lengthened.

Future acquisitions and expansion activities may disrupt our business, dilute shareholder value and adversely affect our operating results and financial condition.

We regularly evaluate potential acquisitions and expansion opportunities, including new branches and other offices. To the extent that we grow through acquisitions, we cannot assure you that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches, or businesses, as well as other geographic and product expansion activities, involve various risks including:

- risks of unknown or contingent liabilities, and potential asset quality issues;
- unanticipated costs and delays;
- risks that acquired new businesses will not perform consistent with our growth and profitability expectations;
- risks of entering new markets or product areas where we have limited experience;
- risks that growth will strain our infrastructure, staff, internal controls and management, which may require additional personnel, time and expenditures;
- difficulties, expenses and delays of integrating the operations and personnel of acquired institutions;
- potential disruptions to our business;
- possible loss of key employees and customers of acquired institutions;
- potential short-term decreases in profitability; and
- diversion of our management's time and attention from our existing operations and business.

Technological changes affect our business, and we may have fewer resources than many competitors to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology driven products and services and growing demands for mobile and user-based banking applications. In addition to allowing us to analyze our customers better, the effective use of technology may increase efficiency and may enable financial institutions to reduce costs, risks associated with fraud and compliance with anti-money laundering and other laws, and various operational risks. Largely unregulated "fintech" businesses have increased their participation in the lending and payments businesses, and have increased competition in these businesses. Our future success will depend, in part, upon our ability to use technology to provide products and services that meet our customers' preferences and create additional efficiencies in operations, while avoiding cyber-attacks and disruptions, data breaches and anti-money laundering and other potential violations of law. The COVID-19 pandemic and increased remote work has accelerated electronic banking activity and the need for increased operational efficiencies and data security. We may need to make significant additional capital investments in technology, including cyber and data security, and we may not be able to effectively implement new technology-driven products and services, or such technology may prove less effective than anticipated. Many larger competitors have substantially greater resources to invest in technological improvements and, increasingly, non-banking firms are using technology to compete with traditional lenders for loans, payments, and other banking services. As a result, our competition from service providers not located in our markets has increased.

Table of Contents

Operational risks are inherent in our businesses.

Operational risks and losses can result from internal and external fraud; gaps or weaknesses in our risk management or internal audit procedures; errors by employees or third parties, including our vendors, failures to document transactions properly or obtain proper authorizations; failure to comply with applicable regulatory requirements in the various jurisdictions where we do business or have customers; failures in our estimates models that rely on; equipment failures, including those caused by natural disasters, or by electrical, telecommunications or other essential utility outages; business continuity and data security system failures, including those caused by computer viruses, cyberattacks, unforeseen problems encountered while implementing major new computer systems or, failures to timely and properly upgrade and patch existing systems or inadequate access to data or poor response capabilities in light of such business continuity and data security system failures; or the inadequacy or failure of systems and controls, including those of our vendors or counterparties. The COVID-19 pandemic presented operational challenges to maintaining continuity of operations of customer services while protecting our employees' and customers' safety and similar situations may occur in the future. In addition, we face certain risks inherent in the ownership and operation of our bank premises and other real-estate, including liability for accidents on our properties. Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, identifying and rectifying weaknesses in existing procedures and training staff and potential environmental risks, it is not possible to be certain that such actions have been or will be effective in controlling these various operational risks that evolve continuously.

Potential gaps in our risk management policies and internal audit procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our business.

Our enterprise risk management and internal audit program is designed to mitigate material risks and losses to us. We have developed and continue to develop risk management and internal audit policies and procedures to reflect the ongoing review of our risks and expect to continue to do so in the future. Nonetheless, our policies and procedures may not be comprehensive and may not identify timely every risk to which we are exposed, and our internal audit process may fail to detect such weaknesses or deficiencies timely in our risk management framework. Many of our risk management models and estimates use observed historical market behavior to model or project potential future exposure. The models used by our business, including the new CECL models, are based on assumptions and projections. These models may not operate properly, or our inputs and assumptions may be inaccurate, or changes in economic and market conditions, customer behaviors or regulations may adversely affect the accuracy or usefulness of the models. As a result, these methods may not fully or timely predict future exposures, which can be significantly greater and/or faster than historically. Other risk management methods depend upon the evaluation of information regarding markets, clients, or other matters that are publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated. Furthermore, there can be no assurance that we can effectively review and monitor all risks or that all of our employees will closely follow our risk management policies and procedures, nor can there be any assurance that our risk management policies and procedures will enable us to accurately identify all risks and limit our exposures based on our assessments.

In addition, we may have to implement more extensive and perhaps different risk management policies and procedures as our regulation changes. For example, the Federal Reserve and the federal bank regulators issued *Principles for Climate-Related Risk for Large Financial Institutions* (October 14, 2023). The bank regulators' guidance applies to banks with over $100 billion in assets. The SEC adopted a climate risk rule on March 6, to require more disclosure on climate risks, also. All of these could adversely affect our costs, and our financial condition and results of operations.

Any failure to protect the confidentiality of customer information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations.

Various laws enforced by the bank regulators and other agencies protect the privacy and security of customers' non-public personal information. Many of our employees have access to, and routinely process personal information of clients through a variety of media, including information technology systems. Our internal processes, policies and controls are designed to protect the confidentiality of client information we hold and that is accessible to us and our employees. It is possible that an employee could, intentionally or unintentionally, disclose or misappropriate confidential client information or our data could be the subject of a cybersecurity attack. Such personal data could also be compromised via intrusions into our systems or those of our service providers or other persons we do business with such as credit bureaus, data processors and merchants who accept credit or debit cards for payment. If we fail to maintain adequate internal controls, or if our employees fail to comply with our policies and procedures, misappropriation or inappropriate disclosure or misuse of client information could occur. Such internal control inadequacies or non-compliance could materially damage our reputation, lead to remediation costs and civil or criminal penalties. These could have a material adverse effect on our business, financial condition and results of operations. See Item 1C. of this report for more information about cybersecurity and our management and strategies.

Our information systems may experience interruptions and security breaches.

We rely heavily on communications and information systems, including those provided by third-party service providers, to conduct our business. Any failure, interruption, or security breach of these systems could result in failures or disruptions which could affect our customers' privacy and our customer relationships, generally. Our business continuity plans, including those of our service providers, for back-up and service restoration, may not be effective in the case of widespread outages due to severe weather, natural disasters, pandemics, or power, communications and other failures. See Item 1C. of this report for more information about cybersecurity and our management and strategies.

Our systems and networks, as well as those of our third-party service providers, are subject to security risks and could be susceptible to disruption through cyber-attacks, such as denial of service attacks, hacking, terrorist activities, or identity theft. Cybercrime risks have increased as electronic and mobile banking activities increased as a result of the COVID-19 pandemic, and may increase as a result of the Russia invasion of Ukraine and tensions with mainland China and other countries. Other financial service institutions and their service providers have reported material security breaches in their websites or other systems, some of which have involved sophisticated and targeted attacks, including use of stolen access credentials, malware, ransomware, phishing and distributed denial-of-service attacks, among other means. Such cyber-attacks may also seek to disrupt the operations of public companies or their business partners, effect unauthorized fund transfers, obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems. Hacking and identity theft risks, in particular, could cause serious reputational harm.

Despite our cybersecurity policies and procedures and our Board of Directors and management's efforts to monitor and ensure the integrity of the systems we and our third-party service providers use, we may not be able to anticipate the rapidly evolving security threats, nor may we be able to implement preventive measures effective against all such threats. The techniques used by cyber criminals change frequently, may not be recognized until launched and can originate from a wide variety of sources, including external service providers, organized crime affiliates, terrorist organizations or hostile foreign governments. These risks may increase in the future as the use of mobile banking and other internet electronic banking continues to grow.

Security breaches or failures may have serious adverse financial and other consequences, including significant legal and remediation costs, disruptions to operations, misappropriation of confidential information, damage to systems operated by us or our third-party service providers, as well as damages to our customers and our counterparties. In addition, these events could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

In July 2023, the SEC adopted rules, effective September 5, 2023, that require reporting companies to disclose material cybersecurity incidents they experience on SEC Form 8-K within four business days, nature, scope, and timing of the incident, and the material impact or reasonably likely material impact on the registrant, including its financial condition and results of operations. As a smaller reporting company, the Company has to comply with these Form 8-K reporting requirements beginning June 15, 2024. Annually, reporting companies are required to disclose material information regarding their cybersecurity risk management, strategy, and governance, beginning for years ending on or after December 15, 2023.

We may be unable to attract and retain key people to support our business.

Our success depends, in large part, on our ability to attract and retain key people. We compete with other financial services companies for people primarily on the basis of compensation and benefits, support services and financial position. Intense competition exists for key employees with demonstrated ability, and we may be unable to hire or retain such employees. Effective succession planning is also important to our long-term success. The unexpected loss of services of one or more of our key persons and failure to ensure effective transfer of knowledge and smooth transitions involving such persons could have a material adverse effect on our business due to loss of their skills, knowledge of our business, their years of industry experience and the potential difficulty of promptly finding qualified replacement employees.

Proposed rules implementing the executive compensation provisions of the Dodd-Frank Act may limit the type and structure of compensation arrangements and prohibit the payment of "excessive compensation" to our executives. These restrictions could negatively affect our ability to compete with other companies in recruiting and retaining key personnel.

Severe weather and natural disasters, including as a result of climate change, pandemics, epidemics, acts of war or terrorism or other external events could have significant effects on our business.

Severe weather and natural disasters, including hurricanes, tornados, drought and floods, epidemics and pandemics, acts of war or terrorism or other external events could have a significant effect on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although management has established disaster recovery and business continuity policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

The COVID-19 pandemic, trade wars, tariffs, sanctions and similar events and disputes, domestic and international, have adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Market interest rates have changed significantly and suddenly. The Federal Reserve's target federal funds rates declined to 0-0.25% in March 2020, where these remained until March 17 2022. The Federal Reserve increased the target federal funds rates 11 from March 17, 2022 through July 27, 2023 to 5.25-5.50% due to inflation. As of March 6, 2023, this range remained at 5.25-5.50% and inflation remains above the Federal Reserve's target rate of 2%. Such events also may adversely affect business and consumer confidence, generally. We and our customers, and our respective suppliers, vendors and processors may be adversely affected by rising costs and shortages of needed equipment and supplies and tight labor markets. The continuation or worsening of these conditions may adversely affect our profitability, growth asset quality and financial condition.

Financial Risks

Our ability to realize our deferred tax assets may be reduced in the future if our estimates of future taxable income from our operations and tax planning strategies do not support this amount, and the amount of net operating loss carry-forwards realizable for income tax purposes may be reduced under Section 382 of the Internal Revenue Code by sales of our capital securities.

We are allowed to carry-back losses for two years for Federal income tax purposes. As of December 31, 2023, we had a net deferred tax asset of $10.3 million compared to $13.8 million one year earlier. These and future deferred tax assets may be further reduced in the future if our estimates of future taxable income from our operations and tax planning strategies do not support the amount of the deferred tax asset. The amount of net operating loss carry-forwards realizable for income tax purposes potentially could be further reduced under Section 382 of the Internal Revenue Code by a significant offering and/or other sales of our capital securities. Current bank capital rules also reduce the regulatory capital benefits of deferred tax assets.

Our cost of funds may increase as a result of general economic conditions, interest rates, inflation and changes in customer behaviors and competitive pressures.

Our costs of funds have increased as a result of general economic conditions, increasing interest rates and competitive pressures, and inflation, and anticipated future changes by the Federal Reserve to reduce inflation. Traditionally, we have obtained funds principally through local deposits and borrowings from other institutional lenders such as the FHLB-Atlanta, which we believe are a cheaper and more stable source of funds than borrowings, generally. Increases in interest rates have caused consumers to shift their funds to more interest-bearing instruments and to increase the competition for and costs of deposits. If customers move money out of bank deposits and into other investment assets or from transaction deposits to higher interest-bearing time deposits, we could lose a relatively low cost source of funds, increasing our funding costs and potentially reducing our net interest income and net income. Additionally, any such loss of funds could result in lower loan originations and growth, which could materially and adversely affect our results of operations and financial condition. See "Supervision and Regulation – Fiscal and Monetary Policy."

Our profitability and liquidity may be affected by changes in interest rates and interest rate levels, the shape of the yield curve and economic conditions.

Our profitability depends upon net interest income, which is the difference between interest earned on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Our income is primarily driven by the spread between these rates. Net interest income will be adversely affected if market interest rates and the interest we pay on deposits and borrowings increases faster than the interest earned on loans and investments. Interest rates, and consequently our results of operations, are affected by general economic conditions (national, international and local) and fiscal and monetary policies, as well as expectations of interest rate changes, fiscal and monetary policies and the shape of the yield curve. As a result, a steeper yield curve, meaning long-term interest rates are significantly higher than short-term interest rates, would provide the Bank with a better opportunity to increase net interest income. Conversely, a flattening yield curve could further pressure our net interest margin as our cost of funds increases relative to the spread we can earn on our assets. The yield curve continues to remain inverted, and this results in a lower spread between our costs of funds and our interest income. In addition, net interest income could be affected by asymmetrical changes in the different interest rate indexes, given that not all of our assets or liabilities are priced with the same index. Higher market interest rates and continuing run-off of maturing securities held by the Federal Reserve in furtherance of its quantitative tightening policy to reduce inflation generally reduce economic activity and may reduce loan demand and growth.

The production of mortgages and other loans and the value of collateral securing our loans are dependent on demand within the markets we serve, as well as interest rates. Lower interest rates typically increase mortgage originations, decrease MSR values and promote economic growth. Increases in market interest rates tend to decrease mortgage originations, increase MSR values, decrease the value and liquidity of collateral securing loans, and potentially increase net interest spread depending upon the yield curve and the magnitude and duration of interest rate increase, and constrain economic growth.

Increases in market interest rates have also caused unrealized losses in our securities portfolio as our available for sale investments are carried at fair value and market prices have declined as market interest rates increase. Although these unrealized losses do not adversely affect our regulatory capital, these do reduce our reported GAAP tangible stockholders' equity. Sales of securities with unrealized losses would result in realized losses for GAAP, regulatory capital and tax purposes. Increases in interest rates may also change depositor behaviors as customers seek higher yielding deposits. This may adversely affect our costs of funds, growth, net interest income and net income, and may also adversely affect our liquidity.

Liquidity risks could affect operations and jeopardize our financial condition.

The COVID-19 pandemic generally has increased our deposits and at banks, generally, while reducing the interest rates earned on loans and securities. Such excess liquidity and the resulting balance sheet growth requires capital support and reduced returns on assets and equity. Inflation and tightening monetary policies beginning in early 2022 have increased interest spreads, but may change the mix and costs of our deposits over time. The growth in deposits exceeded our loan growth and the difference was invested in high-quality, marketable U.S. government and government agency securities, including agency mortgage-backed securities.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, proceeds from loan repayments or sales proceeds from maturing loans and securities, and other sources could have a negative effect on our liquidity. Our funding sources include deposits (primarily core deposits), federal funds purchased, securities sold under repurchase agreements, and short- and long-term debt. We maintain a portfolio of marketable high-quality securities that can be used as a source of liquidity. As market interest rates have risen, however, we have experienced unrealized losses on such securities, which would become realized losses upon the sale of such securities, and such sales at a loss would reduce our net income and our regulatory capital.

We are also members of the FHLB-Atlanta and the Federal Reserve Bank of Atlanta, and we can obtain advances collateralized with eligible assets, and maintain uncommitted federal funds lines of credit with other banks. On March 12, 2023, the Federal Reserve established a new Bank Term Funding Program ("BTFP"), which offers loans of up to one year to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral valued at par. The BTFP ended March 11, 2024 and we have not used this program. In addition, the discount window will apply the same margins used for the securities eligible for the BTFP, further increasing the value of investment securities at the discount window.

Other sources of liquidity available to the Company or the Bank, if needed, include our ability to acquire additional non-core deposits. We may be able, depending upon market conditions, to borrow money or issue and sell debt and preferred or common securities in public or private transactions. Our access to funding sources in amounts adequate to finance or capitalize our activities on terms which are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry, the economy and market interest rates and fiscal and monetary policies. General conditions that are not specific to us, such as disruptions in the financial markets, failures of other bank, such as Silicon Valley Bank, Signature Bank and First Republic Bank in 2023, or negative views and expectations about the prospects for the financial services industry could adversely affect us.

Changes in accounting and tax rules applicable to banks could adversely affect our financial conditions and results of operations.

From time to time, the FASB and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements.

We may need to raise additional capital in the future, but that capital may not be available when it is needed or on favorable terms.

We anticipate that our current capital resources will satisfy our capital requirements for the foreseeable future under currently effective rules. We may, however, need to raise additional capital to support our growth or currently unanticipated losses, or to meet the needs of our communities, resulting from failures or cutbacks by our competitors. Our ability to raise additional capital, if needed, will depend, among other things, on conditions in the capital markets at that time, which are limited by events outside our control, and on our financial performance. If we cannot raise additional capital on acceptable terms when needed, our ability to further expand our operations through internal growth and acquisitions could be limited.

Our associates may take excessive risks which could negatively affect our financial condition and business.

Banks are in the business of accepting certain risks. Our executive officers and other members of management, sales intermediaries, investment professionals, product managers, and other associates, make decisions and choices that involve exposing us to risk. We endeavor, in the design and implementation of our compensation programs and practices, to avoid giving our associates incentives to take excessive risks; however, associates may nonetheless take such risks. Similarly, although we employ controls and procedures designed to prevent misconduct, to monitor associates' business decisions and prevent them from taking excessive risks, these controls and procedures may not be effective. If our associates take excessive risks, risks to our reputation, financial condition and business operations could be materially and adversely affected.

Our ability to continue to pay dividends to shareholders and repurchase stock in the future is subject to our profitability, capital, liquidity and regulatory requirements and these limitations may prevent or limit future dividends.

Cash available to pay dividends to our shareholders is derived primarily from dividends paid to the Company by the Bank. The ability of the Bank to pay dividends, as well as our ability to pay dividends to our shareholders, will continue to be subject to and limited by laws limiting dividend payments by the Bank, the results of operations of our subsidiaries and our need to maintain appropriate liquidity and capital at all levels of our business consistent with regulatory requirements and the needs of our businesses. We can only pay dividends, repurchase stock and pay discretionary bonuses, if our capital conservation buffer exceeds 2.5% and from our eligible retained income over the last four calendar quarters. Although we believe our securities portfolio repositioning in December 2023 improved our balance sheet and reduced our interest rate risks, the losses on such securities sales reduced our eligible retained income available for dividends, share repurchases and discretionary bonuses. See “Supervision and Regulation - Payment of Dividends and Repurchases of Capital Instruments.”

The Federal Reserve expects bank holding companies to inform and consult with Federal Reserve supervisory staff sufficiently in advance of (i) declaring and paying a dividend that could raise safety and soundness concerns, such as declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid); (ii) redeeming or repurchasing regulatory capital instruments when the bank holding company is experiencing financial weaknesses; or (iii) redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.

Further, the Company is also required to maintain sufficient capital, liquidity and resources to serve as a source of managerial and financial strength to the Bank, which may limit its capacity to pay dividends on Company common stock. The Federal Reserve may require the Company to commit resources to the Bank, even where it is not otherwise in the interests of the Company or its shareholders or creditors.

A limited trading market exists for our common shares, which could result in price volatility.

Your ability to sell or purchase common shares depends upon the existence of an active trading market for our common stock. Although our common stock is quoted on the Nasdaq Global Market under the trading symbol “AUBN,” our trading volume has been limited historically. As a result, you may be unable to sell or purchase shares of our common stock at the volume, price and time that you desire. Additionally, whether the purchase or sales prices of our common stock reflects a reasonable valuation of our common stock also is affected by limited trading market, and thus the price you receive for a thinly-traded stock, such as our common stock, may not reflect its true or intrinsic value. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market.

Legal and Regulatory Risks

The Company is an entity separate and distinct from the Bank.

The Company is an entity separate and distinct from the Bank. Company transactions with the Bank are limited by Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W. We depend upon the Bank’s earnings and dividends, which are limited by law and regulatory policies and actions, for cash to pay the Company’s corporate obligations, and to pay dividends to our shareholders. If the Bank’s ability to pay dividends to the Company was terminated or limited, the Company’s liquidity and financial condition could be materially and adversely affected.

Legislative and regulatory changes

The Biden Administration and its appointees to the various government agencies, including the bank regulators, CFPB and SEC, have proposed, and continue to propose changes to bank regulation, SEC rules and corporate tax changes that could have an adverse effect on our results of operations and financial condition.

The bank regulators, the CFPB and the SEC have actively developed a broad range of new and changed rules over the last several years , many of which are complex and lengthy, such as the new CRA regulations and various SEC rules, including the cybersecurity rule adopted in September 2023 and climate change rules adopted on March 6, 2024. Some rules, such as the SEC share repurchase modernization rules, have been struck down by the courts and have been withdrawn, creating more compliance uncertainty during the pendency of the litigation. Ten states attorney generals immediately challenged the new climate change rules, and the Sierra Club is reported to be considering action against the SEC rules because it was scaled back from the original proposal.

Compliance with the volume and complexity of these rule changes is costly and imposes material time and personnel burdens on financial services companies, especially on smaller companies, such as the Company. Increasing litigation on regulatory rules and whether these exceed the agencies' statutory authority or have been improperly adopted has also created further uncertainty and risks as to the final timing, content and scope of new rules, and business changes needed to be made to comply with the effective or compliance dates of the new or changed rules. For example, the SEC's share repurchase disclosure modernization amendments were adopted in May 2023, with a compliance date for calendar year issuers beginning with their 2023 annual Form 10-K report. The SEC postponed the rule on November 22, 2023, following a court ruling ordering the SEC to correct the defects in the rule by November 30, 2023. In December 2023, the court vacated the rule due to inaction by the SEC, and the SEC reverted on February 9, 2024 to its pre-existing rules.

We are subject to extensive regulation that could limit or restrict our activities and adversely affect our earnings.

We and our subsidiaries are regulated by several regulators, including the Federal Reserve, the Alabama Superintendent, the SEC and the FDIC. Although not regulated or supervised by the CFPB, we are subject to the regulations and interpretations of the CFPB and the Federal Reserve's supervision of our compliance with such regulations and pronouncements. Our success is affected by state and federal laws and regulations affecting banks and bank holding companies, and the securities markets, and our costs of compliance could adversely affect our earnings. Banking regulations are primarily intended to protect depositors, and the FDIC's DIF, not shareholders. The financial services industry also is subject to frequent legislative and regulatory changes and proposed changes. In addition, the interpretations of regulations by regulators may change and statutes may be enacted with retroactive impact. From time to time, regulators raise issues during examinations of us which, if not determined satisfactorily, could have a material adverse effect on us. Compliance with applicable laws and regulations is time consuming and costly and may affect our profitability. Our regulators could have a material adverse effect on financial services regulation, generally.

Litigation and regulatory actions could harm our reputation and adversely affect our results of operations and financial condition.

A substantial legal liability or a significant regulatory action against us, as well as regulatory inquiries or investigations, could harm our reputation, result in material fines or penalties, result in significant legal and other costs, divert management resources away from our business, and otherwise have a material adverse effect on our ability to expand on our existing business, financial condition and results of operations. Even if we ultimately prevail in litigation, regulatory investigation or action, our ability to attract new customers, retain our current customers and recruit and retain employees could be materially and adversely affected. Regulatory inquiries and litigation may also adversely affect the prices or volatility of our securities specifically, or the securities of our industry, generally.

As a participating lender in the PPP, the Bank is subject to additional risks of litigation from the Bank's customers or other parties regarding the Bank's processing of loans for the PPP and risks of potential SBA or bank regulatory claims.

The Bank participated as a lender in the PPP and made a total of $56.7 million of PPP loans in 2020 and 2021, generally to support existing customers in the Bank's markets. All PPP loans made by the Bank have been forgiven by the SBA, except for one credit where the borrower is voluntarily repaying the loan. Since the beginning of the PPP, various banks have been subject to litigation regarding the processes and procedures used in processing applications for the PPP, and greater governmental attention is directed at preventing fraud. We may be exposed to similar litigation risks, from both customers and non-customers that approached the Bank regarding PPP loans that we extended.

The SBA, the Department of Justice and the bank regulators are investigating various PPP lenders and borrowers with respect to potential fraud or improper activities under the PPP loan programs. Although the SBA has not indicated any issues with the Bank's participation in the PPP program and honored all PPP forgiveness requests, the Bank could have potential liability if the SBA later determines deficiencies in the manner in which PPP loans were originated, funded or serviced by the Bank, such as an issue with the eligibility of a borrower to receive a PPP loan, or its forgiveness of a PPP properly, including those related to the ambiguities in the laws, rules and guidance regarding the PPP's operation.

The Bank is unaware of any such investigation or claims. If any such claims are made against the Bank and are not resolved favorably to the Bank, it may result in financial liability or adversely affect our reputation. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse effect on our business, financial condition and results of operations. Similar issues may also result in the denial of forgiveness of PPP loans, which could expose us to potential borrower bankruptcies and potential losses and additional costs.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, our financial condition, liquidity and results of operations would be adversely affected.

We and the Bank must meet regulatory capital requirements and maintain sufficient liquidity, including liquidity at the Company, as well as the Bank. If we fail to meet these capital and other regulatory requirements, including more rigorous requirements arising from our regulators' implementation of Basel III, our financial condition, liquidity and results of operations would be materially and adversely affected. Our failure to remain "well capitalized" and "well managed", including meeting the Basel III capital conservation buffers, for bank regulatory purposes, could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance, our ability to raise brokered deposits, our ability to pay dividends on our common stock and our ability to make acquisitions, and we may no longer meet the requirements for becoming a financial holding company. These could also affect our ability to use discretionary bonuses to attract and retain quality personnel. *See* "Supervision and Regulation—Basel III Capital Rules." Although we currently have capital ratios that exceed all these minimum levels and a strategic plan to maintain these levels, we or the Bank may be unable to continue to satisfy the capital adequacy requirements and/or maintain our liquidity for various reasons, which may include:

- losses and/or increases in the Bank's credit risk assets and expected losses resulting from the deterioration in the creditworthiness of borrowers and the issuers of equity and debt securities;
- difficulty in refinancing or issuing instruments upon redemption or at maturity of such instruments to raise capital under acceptable terms and conditions;
- declines in the value of our securities portfolios or sales of securities for losses;
- revisions to the regulations or their application by our regulators that increase our capital requirements;
- reduced total earnings on our assets will reduce our internal generation of capital available to support our balance sheet growth;
- reductions in the value of our MSRs and DTAs; and other adverse developments; and
- unexpected growth and an inability to increase capital timely.

A failure to remain "well capitalized," for bank regulatory purposes, including meeting the Basel III Capital Rule's conservation buffer, could adversely affect customer confidence, and our:

- ability to grow;
- the costs of and availability of funds;
- FDIC deposit insurance premiums;
- ability to raise or replace brokered deposits;
- ability to pay or increase dividends on our capital stock.
- Ability to repurchase our common stock
- ability to make discretionary bonuses to attract and retain quality personnel;
- ability to make acquisitions or engage in new activities;
- flexibility if we become subject to prompt corrective action restrictions; and
- ability to make payments of principal and interest on any of our capital instruments that may be then outstanding.

The Federal Reserve may require us to commit capital resources to support the Bank.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank. In addition, the Dodd-Frank Act amended the FDI Act to require that all companies that control a FDIC-insured depository institution serve as a source of financial strength to their depository institution subsidiaries. Under these requirements, we could be required to provide financial assistance to the Bank should it experience financial distress, even if further investment was not otherwise warranted. See “Supervision and Regulation.”

Our operations are subject to risk of loss from unfavorable fiscal, monetary and political developments in the U.S.

Our businesses and earnings are affected by the fiscal, monetary and other policies and actions of various U.S. governmental and regulatory authorities. Changes in these are beyond our control and are difficult to predict and, consequently, changes in these policies could have negative effects on our activities and results of operations. Failures of the executive and legislative branches to agree on spending plans and budgets previously have led to Federal government shutdowns, which may adversely affect the U.S. economy. Additionally, any prolonged government shutdown may inhibit our ability to evaluate the economy, generally, and affect government workers who are not paid during such events, and where the absence of government services and data could adversely affect consumer and business sentiment, our local economy and our customers and therefore our business.

Litigation and regulatory investigations are increasingly common in our businesses and may result in significant financial losses and/or harm to our reputation.

We face risks of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Plaintiffs in class action and other lawsuits against us may seek very large and/or indeterminate amounts, including punitive and treble damages. Due to the vagaries of litigation, the ultimate outcome of litigation and the amount or range of potential loss at particular points in time may be difficult to ascertain. We do not have any material pending litigation or regulatory matters affecting us.

Failures to comply with the fair lending laws, CFPB regulations or the Community Reinvestment Act, or CRA, could adversely affect us.

The Bank is subject to, among other things, the provisions of the Equal Credit Opportunity Act, or ECOA, and the Fair Housing Act, both of which prohibit discrimination based on race or color, religion, national origin, sex and familial status in any aspect of a consumer, commercial credit or residential real estate transaction. The DOJ and the federal bank regulatory agencies have issued an Interagency Policy Statement on Discrimination in Lending have provided guidance to financial institutions to evaluate whether discrimination exists and how the agencies will respond to lending discrimination, and what steps lenders might take to prevent discriminatory lending practices. Failures to comply with ECOA, the Fair Housing Act and other fair lending laws and regulations, including CFPB regulations or interpretations, could subject us to enforcement actions or litigation, and could have a material adverse effect on our business financial condition and results of operations. Our Bank is also subject to the CRA and periodic CRA examinations. The CRA requires us to serve our entire communities, including low- and moderate-income neighborhoods. Our CRA ratings could be adversely affected by actual or alleged violations of the fair lending or consumer financial protection laws. The CRA and fair lending responsibilities are related and mutually reinforcing. Even though we have maintained an “satisfactory” CRA rating since 2000, we cannot predict our future CRA ratings. Violations of fair lending laws or if our CRA rating falls to less than “satisfactory” could adversely affect our business, including expansion through branching or acquisitions.

The Federal Reserve adopted comprehensive revisions to its CRA regulations on October 24, 2023. The other bank regulators jointly adopted the new CRA regulations, also, and published the new rule in the Federal Register on February 1, 2024. These new rules are first effective for the Bank beginning on January 1, 2026 with data reporting beginning January 1, 2027. The Bank will be an “intermediate bank” and will be subject to the “retail lending test” and either the “intermediate bank community development test,” or if the bank elects, “the community development financing test.” We are evaluating the new rules but cannot predict their effects on us, but these could significantly affect our compliance costs and activities. See “Supervision and Regulation - Community Reinvestment Act and Consumer Laws.”

Table of Contents

COVID-19 Risks

The national emergencies related to COVID-19 have been terminated by the President effective May 11, 2023 and in February 2024 the Centers for Disease Control likened COVID-19 to the flu, and recommended continued use of booster vaccinations. The medical and direct economic effects of COVID-19 diminished further in 2023 and are not directly affecting the Company's business. COVID-19 continues to have various indirect effects and risks, the most important of which are described herein, including continuing inflation and the Federal Reserve's change from accommodative monetary policy to a tightening monetary policy to fight inflation following significant fiscal and monetary stimuli provided to reduce the effects of COVID-19 pandemic on the economy, as well significant changes resulting from the pandemic, including supply chain disruptions, a tight labor market, remote work away from the office, population and business shifts within regions of the United States, changes in commercial real estate utilization, and shortages of housing and increases in rents and housing costs in various areas of the country. These risks are discussed in this report.

The Company's assessment of risks related to COVID-19 and its effects on the Company applicable during the pandemic are discussed in the Company's Annual Report on Form 10-K filed with the SEC on March 8, 2022 under the caption "Risk Factors-COVID 19 Risks" and in our Quarterly Reports on Form 10-Qs though September 30, 2022.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

We rely extensively on various information systems and other electronic resources to operate our business. In addition, nearly all of our customers, service providers and other business partners on whom we depend, including the providers of our online banking, mobile banking and accounting systems, use their own electronic information systems. Any of these systems can be compromised, including by employees, customers and other individuals who are authorized to use them, and bad actors using sophisticated and a constantly evolving set of software, tools and strategies to do so. The threats are domestic and international and range from small to large, including state sponsored, terrorist and criminal organizations with substantial funds, and technical and other resources

As a bank, we and our vendors, service providers and customers may be attractive targets, and we confront continuous cybersecurity threats. Insurance to fully cover these risks is unavailable in sufficient amounts at reasonable costs. We believe the more effective approach is taking active measures to detect, deter and reduce cybersecurity threats, and be prepared to address and remediate any breaches and prevent similar breaches in the future. See "Risks Related to Information Security and Business Interruption" section of the Risk Factors included in Item 1A of this Form 10-K for additional information.

Accordingly, we have devoted significant resources to assessing, identifying and managing risks associated with cybersecurity threats, including:

- Implementing an Information Security Program that establishes policies and procedures for security operations and governance;
- Establishing an IT Steering Committee of the Board that is responsible for security administration, including conducting regular assessments of our information systems, existing controls, vulnerabilities and potential improvements;
- Implementing layers of controls and not allowing excessive reliance on any single control;
- Employing a variety of preventative and detective tools designed to monitor, block and provide alerts regarding suspicious activity;
- Continuously evaluating tools that can detect and help respond to cybersecurity threats in real-time;
- Leveraging people, processes and technology to manage and maintain cybersecurity controls;

- Maintaining a vendor management program with periodic review processes, and a third-party risk management program designed to identify, assess and manage risks associated with external service providers;
- Monitoring our systems and related software and programming periodically to update software and programing, including updating data protection elements, and requiring that our service providers also engage in similar programs that are reasonably designed to deter cybersecurity breaches;
- Performing initial and ongoing due diligence with respect to our third-party service providers, including their cybersecurity practices and safeguards, and service levels based on the risk they pose to the Bank;
- Engaging third-party cybersecurity consultants, who conduct periodic penetration testing, vulnerability assessments and other procedures to identify potential weaknesses in our systems and processes; and
- Conducting periodic cybersecurity training for our employees and the Company's board of directors.

Our Information Security Program is a key part of our overall risk management system, which is administered by our IT Steering Committee and evaluated by our IT Steering Committee and chief risk officer. The program includes administrative, technical and physical safeguards to help protect the security and confidentiality and availability of customer records and information.

From time-to-time, we have identified cybersecurity threats that require us to make changes to our processes, equipment and to implement additional safeguards. While none of these identified threats or incidents have materially affected us, it is possible that threats and incidents we identify in the future could have a material adverse effect on our business strategy, customer service, data privacy and security, continuity of service and reputation, and our results of operations and financial condition.

The Company's Chief Technology Officer is responsible for the day-to-day management of cybersecurity risks we face and oversees the IT Steering Committee, which is chaired by a director of the Company's board. The IT Steering Committee oversees the information security assessment, development of policies, standards and procedures, testing, training and security report processes. The IT Steering Committee is comprised of directors and officers with the appropriate expertise and authority to oversee the Information Security Program.

Our Chief Technology Officer, along with the information technology department, is accountable for managing our enterprise information security and delivering our information security program. The department, as a whole, consists of information security professionals with varying degrees of education and experience. The Chief Technology Officer is subject to professional education and certification requirements. In particular, our Chief Technology Officer, who is also designated as our Information Security Officer, has relevant expertise in the areas of information security and cybersecurity risk management.

In addition, the Company's Board, both as a whole and through its IT Steering Committee is responsible for the oversight of risk management, including cybersecurity risks. In that role, the Company's Board and the IT Steering Committee, with support from the Company's management and third party cybersecurity advisors, are responsible for ensuring that the risk management processes designed and implemented by management are adequate and functioning as designed. The Board reviews and approves an information security program, vendor management policy (including third-party service providers), acceptable use policy, incident response policy and business continuity planning policy on an annual basis. All the aforementioned policies are developed and implemented by Company management. To carry out their duties, the Board receives updates at least quarterly from the Chief Technology Officer regarding cybersecurity risks and the Company's efforts to prevent, detect, mitigate and remediate any cybersecurity incidents.

ITEM 2. DESCRIPTION OF PROPERTY

The Bank conducts its business from its main office and seven full-service branches. The Bank also operates a loan production office in Phenix City, Alabama.

The Bank owns its main campus in downtown Auburn, Alabama, which comprises over 4 acres and includes the newly constructed AuburnBank Center, which was completed in May 2022 and had its grand opening in June 2022. The AuburnBank Center has approximately 90,000 square feet of space. The AuburnBank Center includes the Bank's main office, Auburn loan production office, and all of its back-office operations. The main office branch offers the full line of the Bank's services and has one ATM. The Bank's drive-through facility located on the main office campus was constructed in October 2012. This drive-through facility has five drive-through lanes, including an ATM, and a walk-up teller window. The Bank has approximately 46,000 square feet of office space and approximately 5,000 square feet of retail space in the new AuburnBank Center building available for lease to third party tenants.

In February 2022, the Company entered into an agreement to sell a parcel of approximately 0.85 acres to a hotel developer. As part of the agreement, the Bank negotiated a long-term lease with the hotel developer for 100 to 150 parking spaces in the Bank's parking deck. In October 2022, the Company closed the sale at the agreed upon price of $4.3 million, and recognized a $3.2 million gain.

The Opelika branch is located in Opelika, Alabama. This branch, built in 1991, is owned by the Bank and has approximately 4,000 square feet of space. This branch offers the full line of the Bank's services and has drive-through windows and an ATM. This branch offers parking for approximately 36 vehicles.

The Bank's Notasulga branch was opened in August 2001. This branch is located in Notasulga, Alabama, about 15 miles west of Auburn, Alabama. This branch is owned by the Bank and has approximately 1,344 square feet of space. The Bank leased the land for this branch from a third party. In May 2022, the Bank's land lease renewed for another one year term. This branch offers the full line of the Bank's services including safe deposit boxes and a drive-through window and parking for approximately 11 vehicles, including a handicapped ramp.

In November 2002, the Bank opened a loan production office in a leased space in Phenix City, Alabama, about 35 miles south of Auburn, Alabama. In November 2022, the Bank renewed its lease for another year.

In February 2009, the Bank opened a branch located on Bent Creek Road in Auburn, Alabama. This branch is owned by the Bank and has approximately 4,000 square feet of space. This branch offers the full line of the Bank's services and has drive-through windows and a drive-up ATM. This branch offers parking for approximately 29 vehicles.

In December 2011, the Bank opened a branch located on Fob James Drive in Valley, Alabama, about 30 miles northeast of Auburn, Alabama. This branch is owned by the Bank and has approximately 5,000 square feet of space. This branch offers the full line of the Bank's services and has drive-through windows and a drive-up ATM. This branch offers parking for approximately 35 vehicles. Prior to December 2011, the Bank had operated a loan production office in Valley, which was originally opened in September 2004.

In February 2015, the Bank relocated its Auburn Kroger branch to a new location within the Corner Village Shopping Center, in Auburn, Alabama. In February 2015, the Bank entered into a new lease agreement for five years with options for two 5-year extensions. In February 2020, the Bank exercised its option to renew the lease for another five years. The Bank leases approximately 1,500 square feet of space for the Corner Village branch. Prior to relocation, the Bank's Auburn Kroger branch was located in the Kroger supermarket in the same shopping center since August 1988. The current Corner Village branch offers the full line of the Bank's deposit and other services including an ATM, but does not maintain safe deposit boxes.

In September 2015, the Bank relocated its Auburn Wal-Mart Supercenter branch in south Auburn, which had been opened in 2004 to a new building, which the Bank built in 2015 at the intersection of S. Donahue Avenue and E. University Drive in Auburn, Alabama. The South Donahue branch has approximately 3,600 square feet of space. The South Donahue branch offers the full line of the Bank's services and has drive-through windows and an ATM. This branch offers parking for approximately 28 vehicles.

In May 2017, the Bank relocated its Opelika Kroger branch to a new location the Bank purchased in August 2016 near the Tiger Town Retail Shopping Center and the intersection of U.S. Highway 280 and Frederick Road in Opelika, Alabama. The Tiger Town branch, built in 2017, has approximately 5,500 square feet of space. Prior to relocation, the Bank's Opelika Kroger branch was located inside the Kroger supermarket in the Tiger Town retail center in Opelika, Alabama. The Opelika Kroger branch was originally opened in July 2007. The Tiger Town branch offers the full line of the Bank's services and has drive-through windows and an ATM. This branch offers parking for approximately 36 vehicles.

In addition to the eight ATMs at various branch locations, mentioned above, the Bank also has four ATMs located at various locations within our primary service area.

In September 2018, the Bank opened a loan production office on East Samford Avenue in Auburn, Alabama. The location has approximately 2,500 square feet of space and is leased through 2028. This loan production office was relocated to the newly developed AuburnBank Center in June 2022. The Company entered into a three year sublease agreement, during 2022, with a tenant, which has an option to renew that lease for three additional years.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of its business, the Company and the Bank from time to time are involved in legal proceedings. The Company's management believe there are no pending or threatened legal proceedings that, upon resolution, are expected to have a material adverse effect upon the Company's or the Bank's financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is listed on the Nasdaq Global Market, under the symbol "AUBN". As of March 13, 2024, there were approximately 3,493,674 shares of the Company's Common Stock issued and outstanding, which were held by approximately 343 shareholders of record. The following table sets forth, for the indicated periods, the high and low closing sale prices for the Company's Common Stock as reported on the Nasdaq Global Market, and the cash dividends declared to shareholders during the indicated periods.

	Closing Price Per Share (1)		Cash Dividends Declared
	High	**Low**	
2023			
First Quarter	$ 24.50	$ 22.55	$ 0.27
Second Quarter	24.32	18.80	0.27
Third Quarter	22.80	20.85	0.27
Fourth Quarter	21.99	19.72	0.27
2022			
First Quarter	$ 34.49	$ 31.75	$ 0.265
Second Quarter	33.57	27.04	0.265
Third Quarter	29.02	23.02	0.265
Fourth Quarter	24.71	22.07	0.265

(1) The price information represents actual transactions.

The Company has paid cash dividends on its capital stock since 1985. Prior to this time, the Bank paid cash dividends since its organization in 1907, except during the Depression years of 1932 and 1933. Holders of Common Stock are entitled to receive such dividends when, as and if may be declared by the Company's Board of Directors. The amount and frequency of cash dividends is determined in the judgment of the Board based upon a number of factors, including the Company's earnings, financial condition, liquidity, capital and regulatory requirements and other relevant factors and the availability of dividend payable by the Bank consistent with amounts available therefore, including the Bank's earnings, financial condition, liquidity, regulatory and capital requirements and other relevant factors. The Board currently intends to continue its present dividend policies.

The amount of dividends payable by the Bank is limited by law and regulation. The Company relies upon dividends from the Bank to pay Company expenses and to pay dividends on Company common stock. The need to maintain adequate capital and liquidity in the Bank also limits the dividends that may be paid to the Company. The Bank and the Company can only pay dividends, repurchase stock and pay discretionary bonuses, if our capital conservation buffer exceeds 2.5% and from our eligible retained income over the last four calendar quarters. Eligible retained income equals the greater of:

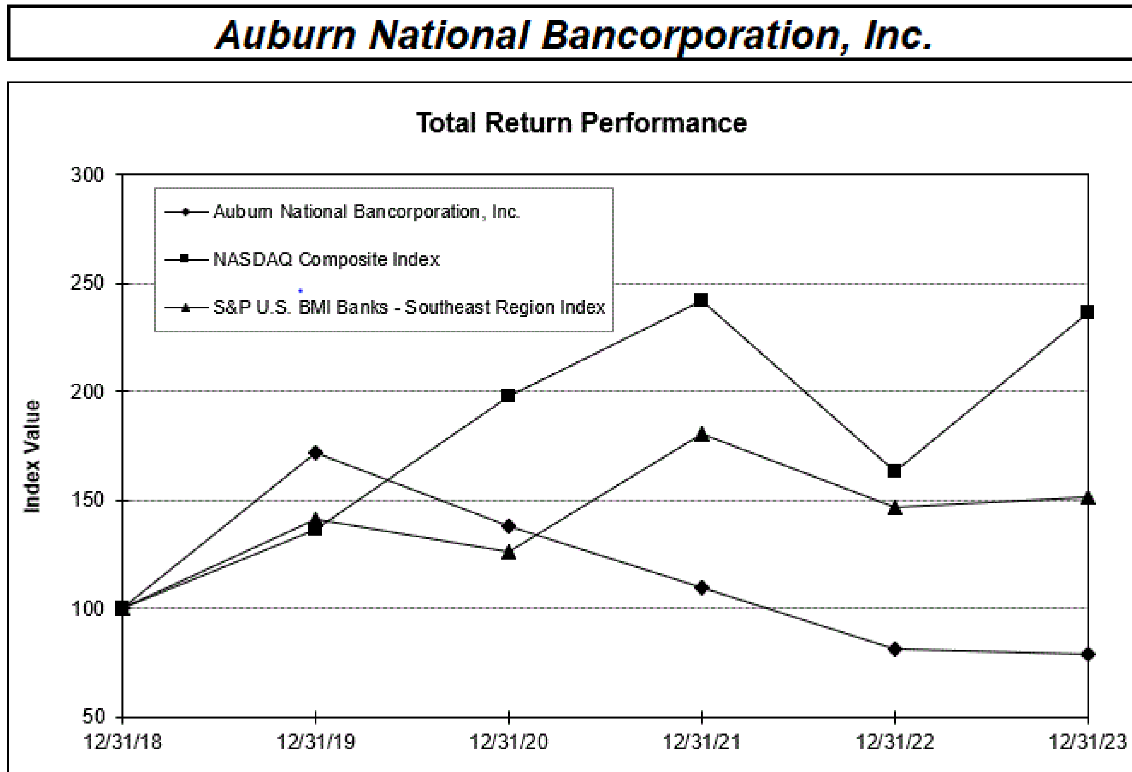
- net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income; or
- the average net income over the preceding four quarters.

Federal Reserve policy could restrict future dividends on our Common Stock, depending on our earnings and capital position, risks and likely needs. See "Supervision and Regulation – Payment of Dividends" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Adequacy" and "Risk Factors - *Our ability to continue to pay dividends to shareholders and repurchase stock in the future is subject to our profitability, capital, liquidity and regulatory requirements and these limitations may prevent or limit future dividends."*

Table of Contents

Performance Graph

The following performance graph compares the cumulative, total return on the Company's Common Stock from December 31, 2018 to December 31, 2023, with that of the Nasdaq Composite Index and S&P U.S. BMI Banks – Southeast Region Index (assuming a $100 investment on December 31, 2018). Cumulative total return represents the change in stock price and the amount of dividends received over the indicated period, assuming the reinvestment of dividends.



Index	*Period Ending*					
	12/31/2018	**12/31/2019**	**12/30/2020**	**12/30/2021**	**12/31/2022**	**12/31/2023**
Auburn National Bancorporation, Inc.	100.00	171.98	138.22	110.10	81.48	79.19
NASDAQ Composite Index	100.00	136.69	198.10	242.03	163.28	236.17
S&P U.S. BMI Banks - Southeast Region Index	100.00	140.94	126.37	180.49	146.81	151.44

Table of Contents

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	The Approximate Dollar Value of Shares that May Yet Be Under the Plans or Programs
October 1 – October 31, 2023	—	—	—	4,386,264
November 1 – November 30, 2023	—	—	—	4,386,264
December 1 – December 31, 2023	—	—	—	4,386,264
Total	—	—	—	4,386,264

On April 12, 2022, the Board of Directors of Auburn National Bancorporation, Inc. (the "Company") announced that its Board of Directors had approved a new stock repurchase program to replace the repurchase program that expired on March 31, 2022. The new program authorized the repurchase, from time to time, of up to $5 million of the Company's issued and outstanding common stock through the earliest of (i) the expenditure of $5 million on Share repurchases, (ii) the termination or replacement of the Repurchase Plan and (iii) April 15, 2024. The stock repurchases may be open-market or private purchases, negotiated transactions, block purchases, and otherwise.

Securities Authorized for Issuance Under Equity Compensation Plans

See the information included under Part III, Item 12, which is incorporated in response to this item by reference.

Unregistered Sale of Equity Securities

Not applicable.

ITEM 6. SELECTED FINANCIAL DATA

See Table 2 "Selected Financial Data" and general discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition at December 31, 2023 and 2022 and our results of operations for the years ended December 31, 2023 and 2022. The purpose of this discussion is to provide information about our financial condition and results of operations which is not otherwise apparent from the consolidated financial statements. The following discussion and analysis should be read along with our consolidated financial statements and the related notes included elsewhere herein. In addition, this discussion and analysis contains forward-looking statements, so you should refer to Item 1A, "Risk Factors" and "Special Cautionary Notice Regarding Forward-Looking Statements".

OVERVIEW

The Company was incorporated in 1990 under the laws of the State of Delaware and became a bank holding company after it acquired its Alabama predecessor, which was a bank holding company established in 1984. The Bank, the Company's principal subsidiary, is an Alabama state-chartered bank that is a member of the Federal Reserve System and has operated continuously since 1907. Both the Company and the Bank are headquartered in Auburn, Alabama. The Bank conducts its business primarily in East Alabama, including Lee County and surrounding areas. The Bank operates full-service branches in Auburn, Opelika, Notasulga and Valley, Alabama. The Bank also operates a loan production office in Phenix City, Alabama.

Summary of Results of Operations

(Dollars in thousands, except per share data)	Year ended December 31 2023	2022
Net interest income (a)	$ 26,745	$ 27,622
Less: tax-equivalent adjustment	417	456
Net interest income (GAAP)	26,328	27,166
Noninterest income	(2,981)	6,506
Total revenue	23,347	33,672
Provision for credit losses	135	1,000
Noninterest expense	22,594	19,823
Income tax (benefit) expense	(777)	2,503
Net earnings	$ 1,395	$ 10,346
Basic and diluted net earnings per share	$ 0.40	$ 2.95

(a) Tax-equivalent. See "Table 1 - Explanation of Non-GAAP Financial Measures".

Financial Summary

The Company's net earnings were $1.4 million for the full year 2023, compared to $10.3 million for the full year 2022. Basic and diluted net earnings per share were $0.40 per share for the full year 2023, compared to $2.95 per share for the full year 2022.

Net earnings for 2023 included a loss on sale of securities, while 2022 net earnings included a gain on sale of land and a one-time payroll tax credit provided by the CARES Act. The after-tax impact of the loss on securities reduced 2023 net earnings by $4.7 million, while non-routine items in 2022 improved net earnings by $3.6 million. Excluding non-routine items, net earnings for the full year 2023 would have been $6.1 million, or $1.75 per share, compared to $6.7 million, or $1.92 per share for the full year 2022.

Net interest income (tax-equivalent) was $26.7 million in 2023, a 3% decrease compared to $27.6 million in 2022. This decrease was primarily due to a decline in interest earning assets, increased cost of funds and changes in our deposit mix, which was partially offset by a more favorable asset mix and higher yields on interest earnings assets. The Company's net interest margin (tax-equivalent) was 2.89% in 2023, compared to 2.81% in 2022. Average loans for 2023 were $523.8 million, a 15% increase from 2022.

At December 31, 2023, the Company's allowance for credit losses was $6.9 million, or 1.23% of total loans, compared to $5.8 million, or 1.14% of total loans, at December 31, 2022. The implementation of CECL required pursuant to Accounting Standards Codification ("ASC") 326, which was effective January 1, 2023, increased our allowance for credit losses by $1.0 million, or 0.20% of total loans, as a day one transition adjustment. For the full year 2023, increases in the allowance for credit losses due to changes in the composition and balance of loans during 2023 were largely offset by reductions in the allowance for credit losses due to the resolution of collateral dependent nonperforming loans.

The Company recorded a provision for credit losses of $0.1 million in 2023 compared to $1.0 million during 2022. The provision for credit losses under CECL is reflective of the Company's credit risk profile and the future economic outlook and forecasts. Our CECL model is largely influenced by economic factors including, most notably, the anticipated unemployment rate. The decrease in provision for credit losses was primarily related to the downgrade of one borrowing relationship in the fourth quarter of 2022, where one of these loans was repaid in full during the second quarter of 2023.

Noninterest income was a loss of $3.0 million in 2023 compared to income of $6.5 million in 2022. Excluding the pre-tax securities loss of $6.3 million related to the balance sheet repositioning strategy in 2023, noninterest income would have been $3.3 million for 2023, compared to noninterest income of $3.3 million in 2022 after excluding the pre-tax gain of $3.2 million on the sale of land.

Noninterest expense was $22.6 million in 2023 compared to $19.8 million in 2022. Excluding the impact of the one-time payroll tax credit of $1.6 million, noninterest expense would have been $21.4 million in 2022. This increase in noninterest expense reflects increases in net occupancy and equipment expenses of $0.2 million related to the Company's new headquarters, which opened in June 2022, professional fees expense of $0.3 million, other real estate owned expense of $0.1 million, FDIC and other regulatory assessments expenses of $0.2 million and other noninterest expense of $0.5 million, partially offset by decreases in salaries and benefits expense of $0.2 million.

The provision for income taxes was a benefit of $0.8 million for an effective tax rate of (125.73)% for 2023, compared to tax expense of $2.5 million and an effective tax rate of 19.48% for 2022. This decrease was primarily due to a decrease in pre-tax earnings in 2023 resulting from the balance sheet repositioning. The Company's effective income tax rate otherwise is principally affected by tax-exempt earnings from the Company's investments in municipal securities, bank-owned life insurance, and New Markets Tax Credits.

The Company paid cash dividends of $1.08 per share in 2023, an increase of 2% from 2022. At December 31, 2023, the Bank's regulatory capital ratios were well above the minimum amounts required to be "well capitalized" under current regulatory standards with a total risk-based capital ratio of 15.52%, a tier 1 leverage ratio of 9.72% and common equity tier 1 ("CET1") of 14.52% at December 31, 2023.

CRITICAL ACCOUNTING POLICIES

The accounting and financial reporting policies of the Company conform with U.S. generally accepted accounting principles and with general practices within the banking industry. In connection with the application of those principles, we have made judgments and estimates which, in the case of the determination of our allowance for credit losses, our determination of credit losses for investment securities, recurring and non-recurring fair value measurements, the valuation of other real estate owned, and the valuation of deferred tax assets, were critical to the determination of our financial position and results of operations. Other policies also require subjective judgment and assumptions and may accordingly impact our financial position and results of operations. On January 1, 2023, we adopted FASB ASU 2016-13 *Financial Instruments - Credit Losses* (Topic 326) which significantly changes our methodology for determining our allowance for credit losses, and ASU 2022-02*, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* which eliminated the accounting guidance for TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Allowance for Credit Losses – Loans

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company's loan loss estimation process includes procedures to appropriately consider the unique characteristics of its loan segments (commercial and industrial, construction and land development, commercial real estate, multifamily, residential real estate, and consumer loans). These segments are further disaggregated into loan classes, the level at which credit quality is monitored. See Note 5, Loans and Allowance for Credit Losses, for additional information about our loan portfolio.

Credit loss assumptions are estimated using a discounted cash flow ("DCF") model for each loan segment, except consumer loans. The weighted average remaining life method is used to estimate credit loss assumptions for consumer loans.

Table of Contents

The DCF model calculates an expected life-of-loan loss percentage by considering the forecasted probability that a borrower will default (the "PD"), adjusted for relevant forecasted macroeconomic factors, and LGD, which is the estimate of the amount of net loss in the event of default. This model utilizes historical correlations between default experience and certain macroeconomic factors as determined through a statistical regression analysis. The forecasted Alabama unemployment rate is considered in the model for commercial and industrial, construction and land development, commercial real estate, multifamily, and residential real estate loans. In addition, forecasted changes in the Alabama home price index is considered in the model for construction and land development and residential real estate loans; forecasted changes in the national commercial real estate ("CRE") price index is considered in the model for commercial real estate and multifamily loans; and forecasted changes in the Alabama gross state product is considered in the model for multifamily loans. Projections of these macroeconomic factors, obtained from an independent third party, are utilized to forecast quarterly rates of default based on the statistical PD models.

Expected credit losses are estimated over the contractual term of the loan, adjusted for expected prepayments and principal payments ("curtailments") when appropriate. Management's determination of the contract term excludes expected extensions, renewals, and modifications unless the extension or renewal option is included in the contract at the reporting date and is not unconditionally cancellable by the Company. To the extent the lives of the loans in the portfolio extend beyond the period for which a reasonable and supportable forecast can be made (which is 4 quarters for the Company), the Company reverts, on a straight-line basis back to the historical rates over an 8 quarter reversion period.

The weighted average remaining life method was deemed most appropriate for the consumer loan segment because consumer loans contain many different payment structures, payment streams and collateral. The weighted average remaining life method uses an annual charge-off rate over several vintages to estimate credit losses. The average annual charge-off rate is applied to the contractual term adjusted for prepayments.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are believed likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the estimated fair value of collateral held at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's consolidated statements of earnings. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's consolidated balance sheets.

Table of Contents

Assessment for Allowance for Credit Losses – Available-for-Sale Securities

For any securities classified as available-for-sale that are in an unrealized loss position at the balance sheet date, the Company assesses whether or not it intends to sell the security, or more likely than not will be required to sell the security, before recovery of its amortized cost basis. If either of these criteria are met, the security's amortized cost basis is written down to fair value through net income. If neither criterion is met, the Company evaluates whether any portion of the decline in fair value is the result of credit deterioration. Such evaluations consider the extent to which the amortized cost of the security exceeds its fair value, changes in credit ratings and any other known adverse conditions related to the specific security. If the evaluation indicates that a credit loss exists, an allowance for credit losses is recorded for the amount by which the amortized cost basis of the security exceeds the present value of cash flows expected to be collected, limited by the amount by which the amortized cost exceeds fair value. Any impairment not recognized in the allowance for credit losses is recognized in other comprehensive income.

The Company is required to own certain stock as a condition of membership, such as the FHLB-Atlanta and Federal Reserve Bank of Atlanta (“FRB”). These non-marketable equity securities are accounted for at cost which equals par or redemption value. These securities do not have a readily determinable fair value as their ownership is restricted and there is no market for these securities. The Company records these non-marketable equity securities as a component of other assets, which are periodically evaluated for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Fair Value Determination

U.S. GAAP requires management to value and disclose certain of the Company’s assets and liabilities at fair value, including investments classified as available-for-sale and derivatives. ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements. For more information regarding fair value measurements and disclosures, please refer to Note 14, Fair Value, of the unaudited consolidated financial statements that accompany this report.

Fair values are based on active market prices of identical assets or liabilities when available. Comparable assets or liabilities or a composite of comparable assets in active markets are used when identical assets or liabilities do not have readily available active market pricing. However, some of the Company’s assets or liabilities lack an available or comparable trading market characterized by frequent transactions between willing buyers and sellers. In these cases, fair value is estimated using pricing models that use discounted cash flows and other pricing techniques. Pricing models and their underlying assumptions are based upon management’s best estimates for appropriate discount rates, default rates, prepayments, market volatility and other factors, taking into account current observable market data and experience.

These assumptions may have a significant effect on the reported fair values of assets and liabilities and the related income and expense. As such, the use of different models and assumptions, as well as changes in market conditions, could result in materially different net earnings and retained earnings results.

Deferred Tax Asset Valuation

A valuation allowance is recognized for a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2023 we had total deferred tax assets of $12.5 million included as “other assets”, including $9.7 million resulting from unrealized losses in our securities portfolio. Based upon the level of taxable income over the last three years and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences at December 31, 2023. The amount of the deferred tax assets considered realizable, however, could be reduced if estimates of future taxable income are reduced.

Table of Contents

Average Balance Sheet and Interest Rates

	Year ended December 31					
	2023			2022		
(Dollars in thousands)		Average Balance	Yield/ Rate		Average Balance	Yield/ Rate
Loans and loans held for sale	$	523,838	4.76%	$	454,604	4.45%
Securities - taxable		335,366	2.15%		364,006	1.81%
Securities - tax-exempt (a)		52,122	3.81%		61,614	3.53%
Total securities		387,488	2.37%		425,620	2.06%
Federal funds sold		5,221	4.79%		43,766	1.00%
Interest bearing bank deposits		8,593	4.92%		58,141	0.99%
Total interest-earning assets		925,140	3.76%		982,131	3.05%
Deposits:						
NOW		193,451	0.99%		197,177	0.19%
Savings and money market		289,235	0.74%		327,139	0.20%
Certificates of deposits		175,085	2.25%		154,273	0.84%
Total interest-bearing deposits		657,771	1.21%		678,589	0.34%
Short-term borrowings		3,255	2.21%		4,516	1.33%
Total interest-bearing liabilities		661,026	1.22%		683,105	0.35%
Net interest income and margin (a)	$	26,745	2.89%	$	27,622	2.81%

(a) Tax-equivalent. See "Table 1 - Explanation of Non-GAAP Financial Measures".

RESULTS OF OPERATIONS

Net Interest Income and Margin

Net interest income (tax-equivalent) was $26.7 million in 2023, compared to $27.6 million in 2022. This decrease was primarily due to a decline in interest earning assets and higher costs of funds partially offset by improvements in the Company's yield on interest earning assets. Net interest margin (tax-equivalent) increased to 2.89% in 2023, compared to 2.81% in 2022. This increase was primarily due to a more favorable asset mix and higher yields on interest earning assets. These higher yields on interest earning assets were partially offset by increased cost of funds. During 2023, the cost of funds increased to 122 basis points, compared to 35 basis points during 2022. Since March of 2022, the Federal Reserve increased the target federal funds range from 0 – 0.25% to 5.25 – 5.50%.

The tax-equivalent yield on total interest-earning assets increased by 71 basis points to 3.76% in 2023 compared to 3.05% in 2022. This increase was primarily due to changes in our asset mix and higher market interest rates on interest earning assets.

The cost of total interest-bearing liabilities increased by 87 basis points to 1.22% in 2023 compared to 0.35% in 2022. Our deposit costs may continue to increase if the Federal Reserve maintains or increases its target federal funds rate, market interest rates increase, and as customer behaviors change as a result of inflation and higher market interest rates, and we compete for deposits against other banks, money market mutual funds, Treasury securities and other interest bearing alternative investments.

The Company continues to deploy various asset liability management strategies to manage its risk from interest rate fluctuations. Deposit and loan pricing remains competitive in our markets. We believe this challenging rate environment will continue in 2024. Our ability to compete and manage our deposits costs until our interest-earning assets reprice and we generate new fixed rate loans with current market interest rates will be important to our net interest margin during the monetary tightening cycle that we believe will continue in 2024.

Table of Contents

Provision for Credit Losses

On January 1, 2023, we adopted ASC 326, which introduces the current expected credit losses (CECL) methodology and requires us to estimate all expected credit losses over the remaining life of our loans. Accordingly, the provision for credit losses represents a charge to earnings necessary to establish an allowance for credit losses that, in management's evaluation, is adequate to provide coverage for all expected credit losses. The Company recorded a provision for credit losses of $0.1 million during 2023, compared to a provision for loan losses of $1.0 million for 2022. Provision for credit losses expense is affected by organic loan growth in our loan portfolio, our internal assessment of the credit quality of the loan portfolio, our expectations about future economic conditions and net charge-offs. Our CECL model is largely influenced by economic factors including, most notably, the anticipated unemployment rate, which may be affected by monetary policy. The provision for credit losses during 2023 was primarily related to an increase in the calculation of current expected credit losses due to loan growth during 2023. This was largely offset by the resolution of a collateral dependent nonperforming loan, with a recorded investment of $1.3 million and a corresponding allowance of $0.5 million, that was collected in full during the second quarter of 2023.

Our allowance for credit losses reflects an amount we believe appropriate, based on our allowance assessment methodology, to adequately cover all expected credit losses as of the date the allowance is determined. At December 31, 2023, the Company's allowance for credit losses was $6.9 million, or 1.23% of total loans, compared to $5.8 million, or 1.14% of total loans, at December 31, 2022. The implementation of CECL, as of January 1, 2023, increased our allowance for credit losses by $1.0 million, or 0.20% of total loans, as a day one transition adjustment to ASC 326.

Noninterest Income

	Year ended December 31	
(Dollars in thousands)	2023	2022
Service charges on deposit accounts	$ 603	$ 598
Mortgage lending	430	650
Bank-owned life insurance	411	317
Gain on sale of premises and equipment	—	3,234
Securities (losses) gains, net	(6,295)	12
Other	1,870	1,695
Total noninterest income	$ (2,981)	$ 6,506

The Company's noninterest income from mortgage lending is primarily attributable to the (1) origination and sale of new mortgage loans and (2) servicing of mortgage loans. Origination income, net, is comprised of gains or losses from the sale of the mortgage loans originated, origination fees, underwriting fees and other fees associated with the origination of mortgage loans, which are netted against the commission expense associated with these originations. The Company's normal practice is to originate mortgage loans for sale in the secondary market and to either sell or retain the MSRs when the loan is sold.

MSRs are recognized based on the fair value of the servicing right on the date the corresponding mortgage loan is sold. Subsequent to the date of transfer, the Company has elected to measure its MSRs under the amortization method. Servicing fee income is reported net of any related amortization expense.

The Company evaluates MSRs for impairment quarterly. Impairment is determined by grouping MSRs by common predominant characteristics, such as interest rate and loan type. If the aggregate carrying amount of a particular group of MSRs exceeds the group's aggregate fair value, a valuation allowance for that group is established. The valuation allowance is adjusted as the fair value changes. An increase in mortgage interest rates typically results in an increase in the fair value of the MSRs while a decrease in mortgage interest rates typically results in a decrease in the fair value of MSRs.

The following table presents a breakdown of the Company's mortgage lending income for 2023 and 2022.

	Year ended December 31	
(Dollars in thousands)	2023	2022
Origination income	$ 71	$ 309
Servicing fees, net	359	341
Total mortgage lending income	$ 430	$ 650

Table of Contents

The Company's income from mortgage lending typically fluctuates as mortgage interest rates change and is primarily attributable to the origination and sale of new mortgage loans. Origination income decreased as market interest rates on mortgage loans increased and mortgage loan volumes also decreased. The decrease in origination income was partially offset by an increase in mortgage servicing fees, net of related amortization expense as mortgage prepayment speeds slowed, resulting in decreased amortization expense.

Income from bank-owned life insurance was $411 thousand and $317 thousand for 2023 and 2022, respectively. Excluding a $52 thousand non-taxable death benefit received during 2023, income from bank-owned life insurance would have been $359 thousand and $317 thousand for 2023 and 2022, respectively.

In October 2022, the Company closed the sale of approximately 0.85 acres of land located next to the Company's headquarters in Auburn, Alabama for a purchase price of $4.3 million. The sale resulted in a gain of $3.2 million, net of prorations, closing costs and costs of demolishing the Bank's former main office building.

In December 2023, the Company announced it had repositioned its balance sheet by selling approximately $117.6 million, or 27%, of its available-for-sale securities with a weighted average book yield of 2.11% and a weighted average duration of 4.0 years, resulting in net losses on sale of the securities of approximately $6.3 million. Proceeds of $111.3 million from the sale of securities were used to repay wholesale funding of $48.0 million with a weighted average cost of 5.38%, while the remaining amounts were held in cash to fund future loan growth, higher-yielding securities, and other banking operations.

Other noninterest income was $1.9 million and $1.7 million for 2023 and 2022, respectively. The increase in other noninterest income was primarily related to insurance proceeds of $0.2 million received during 2023 related to property claims.

Noninterest Expense

	Year ended December 31			
(Dollars in thousands)		**2023**		**2022**
Salaries and benefits	$	12,101	$	12,307
Employee retention credit		—		(1,569)
Net occupancy and equipment		2,954		2,742
Professional fees		1,299		975
FDIC and other regulatory assessments		631		404
Other		5,609		4,964
Total noninterest expense	$	22,594	$	19,823

Salaries and benefits decreased during 2023 compared to 2022. A decrease in the number of full-time equivalents was partially offset by routine annual increases in salaries and wages.

The employee retention tax credit of $1.6 million in 2022 relates to a one-time payroll tax credit provided by the CARES Act and the 2020 Consolidated Appropriations Act.

The increase in net occupancy and equipment expense was primarily due to increased expenses related to the Company's new headquarters in downtown Auburn. This amount includes depreciation expense and costs associated with operating of the new headquarters. The Company relocated its main office branch and bank operations into its newly constructed headquarters during June 2022.

The increase in professional fees expense during 2023 compared to 2022 was primarily related to increased consulting and audit related fees during 2023.

The increase in FDIC and other regulatory assessments during 2023 compared to 2022 was primarily related to increases in the FDIC's initial base deposit insurance assessment rate. On October 18, 2022, the FDIC adopted an amended restoration plan to increase the likelihood that the reserve ratio would be restored to at least 1.35% by September 30, 2028. The FDIC's amended restoration plan increases the initial base deposit insurance assessment rate schedules uniformly by 2 basis points, which began the first quarterly assessment period of 2023.

Table of Contents

The increase in other noninterest expense was due to a variety of items including software costs, ATM and checkcard expenses, impairment related to new market tax credit investment due to remaining tax credit being less than the Company's investment, and a gain on sale of other real estate owned that was realized in 2022.

Income Tax Expense

The provision for income taxes was a benefit of $0.8 million for an effective tax rate of (125.73)% for 2023, compared to tax expense of $2.5 million and an effective tax rate of 19.48% for 2022. This decrease was primarily due to a decrease in pre-tax earnings in 2023 resulting from the balance sheet repositioning. The Company's effective income tax rate otherwise is principally affected by tax-exempt earnings from the Company's investments in municipal securities, bank-owned life insurance, and New Markets Tax Credits.

BALANCE SHEET ANALYSIS

Securities

Securities available-for-sale were $270.9 million at December 31, 2023, compared to $405.3 million at December 31, 2022. This decrease reflects a decrease in the amortized cost basis of securities available-for-sale of $150.3 million, offset by an increase of $15.9 million in the fair value of securities available-for-sale. The decrease in the amortized cost basis of securities available-for-sale was primarily attributable to the sale of $117.6 million securities available-for-sale as part of the balance sheet repositioning in December 2023 and normal paydowns and maturities on other securities. The increase in the fair value of securities was primarily due to a decrease in long-term market interest rates at the end of 2023. The average annualized tax-equivalent yields earned on total securities were 2.37% in 2023 and 2.06% in 2022.

The following table shows the carrying value and weighted average yield of securities available-for-sale as of December 31, 2023 according to contractual maturity. Actual maturities may differ from contractual maturities of mortgage-backed securities ("MBS") because the mortgages underlying the securities may be called or prepaid with or without penalty.

					December 31, 2023
(Dollars in thousands)	1 year or less	1 to 5 years	5 to 10 years	After 10 years	Total Fair Value
Agency obligations	$ 331	10,339	43,209	—	53,879
Agency MBS	32	15,109	22,090	161,058	198,289
State and political subdivisions	—	—	9,691	9,051	18,742
Total available-for-sale	$ 363	25,448	74,990	170,109	270,910
Weighted average yield (1):					
Agency obligations	3.40%	0.99%	1.66%	—	1.54%
Agency MBS	3.47%	1.19%	1.84%	2.20%	2.08%
State and political subdivisions	—	—	1.95%	2.55%	2.23%
Total available-for-sale	3.41%	1.11%	1.75%	2.21%	1.98%

(1) Yields are calculated based on amortized cost.

Loans

	December 31	
(In thousands)	2023	2022
Commercial and industrial	$ 73,374	66,212
Construction and land development	68,329	66,479
Commercial real estate	287,307	264,573
Residential real estate	117,457	97,648
Consumer installment	10,827	9,546
Total loans	557,294	504,458

Total loans, net of unearned income, were $557.3 million at December 31, 2023, and $504.5 million at December 31, 2022, an increase of $52.8 million, or 11%. Four loan categories represented the majority of the loan portfolio at December 31, 2023: commercial real estate (52%), residential real estate (21%), construction and land development (12%), and commercial and industrial (13%). Approximately 23% of the Company's commercial real estate loans were classified as owner-occupied at December 31, 2023.

Within the residential real estate portfolio segment, the Company had junior lien mortgages of approximately $8.7 million, or 2%, and $7.4 million, or 1%, of total loans at December 31, 2023 and 2022, respectively. For residential real estate mortgage loans with a consumer purpose, the Company had no loans that required interest only payments at December 31, 2023 and 2022. The Company's residential real estate mortgage portfolio does not include any option ARM loans, subprime loans, or any material amount of other consumer mortgage products which are generally viewed as high risk.

The average yield earned on loans and loans held for sale was 4.76% in 2023 and 4.45% in 2022.

The specific economic and credit risks associated with our loan portfolio include, but are not limited to, the effects of current economic conditions, including inflation and the continuing higher levels of market interest rates, remaining COVID-19 pandemic effects including supply chain disruptions, commercial office occupancy levels, housing supply shortages and inflation, on our borrowers' cash flows, real estate market sales volumes and liquidity, valuations used in making loans and evaluating collateral, availability and cost of financing properties, real estate industry concentrations, competitive pressures from a wide range of other lenders, deterioration in certain credits, interest rate fluctuations, reduced collateral values or non-existent collateral, title defects, inaccurate appraisals, financial deterioration of borrowers, fraud, and any violation of applicable laws and regulations. Various projects financed earlier that were based on lower interest rate assumptions than currently in effect may not be as profitable or successful at the higher interest rates currently in effect and which may exist in the future.

The Company attempts to reduce these economic and credit risks through its loan-to-value guidelines for collateralized loans, investigating the creditworthiness of borrowers and monitoring borrowers' financial position. Also, we have established and periodically review, our lending policies and procedures. Banking regulations limit a bank's credit exposure by prohibiting unsecured loan relationships that exceed 10% of its capital; or 20% of capital, if loans in excess of 10% of capital are fully secured. Under these regulations, we are prohibited from having secured loan relationships in excess of approximately $22.2 million. Furthermore, we have an internal limit for aggregate credit exposure (loans outstanding plus unfunded commitments) to a single borrower of $20.0 million. Our loan policy requires that the Loan Committee of the Board of Directors approve any loan relationships that exceed this internal limit. At December 31, 2023, the Bank had one loan relationship exceeding our internal limit.

We periodically analyze our commercial loan portfolio to determine if a concentration of credit risk exists in any one or more industries. We use classification systems broadly accepted by the financial services industry in order to categorize our commercial borrowers. Loan concentrations to borrowers in the following classes exceeded 25% of the Bank's total risk-based capital at December 31, 2023 (and related balances at December 31, 2022).

	December 31	
(In thousands)	**2023**	**2022**
Lessors of 1-4 family residential properties	$ 56,912	$ 52,278
Multi-family residential properties	45,841	41,084
Hotel/motel	39,131	33,378
Office buildings	30,871	27,074

The Company maintains the allowance for credit losses at a level that management believes appropriate to adequately cover the Company's estimate of expected losses in the loan portfolio. The allowance for credit losses was $6.9 million at December 31, 2023 compared to $5.8 million at December 31, 2022, which management believed to be adequate at each of the respective dates. The assumptions, judgments and estimates, as well as the methodologies and models associated with the determination of the allowance for credit losses are described under "Critical Accounting Policies."

On January 1, 2023, we adopted ASC 326, which introduces the current expected credit losses (CECL) methodology and requires us to estimate all expected credit losses over the remaining life of our loan portfolio. Accordingly, beginning in 2023, the allowance for credit losses represents an amount that, in management's evaluation, is adequate to provide coverage for all expected future credit losses on outstanding loans. As of December 31, 2023 and December 31, 2022, our allowance for credit losses was approximately $6.9 million and $5.8 million, respectively, which our management believes to be adequate at each of the respective dates. Our allowance for credit losses as a percentage of total loans was 1.23% at December 31, 2023, compared to 1.14% at December 31, 2022.

The increase in the allowance for credit losses is largely the result of the implementation of ASC 326 on January 1, 2023, which resulted in an adjustment to the opening balance of the allowance for credit losses of $1.0 million. Our CECL models rely largely on projections of macroeconomic conditions to estimate future credit losses. Macroeconomic factors used in the model include the Alabama unemployment rate, the Alabama home price index, the national commercial real estate price index and the Alabama gross state product. Projections of these macroeconomic factors, obtained from an independent third party, are utilized to predict quarterly rates of default. See Note 5 to our Financial Statements.

Under the CECL methodology the allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics, and for loans that do not share similar risk characteristics with the collectively evaluated pools, evaluations are performed on an individual basis. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses are reverted to long term historical averages. At December 31, 2023, reasonable and supportable periods of 4 quarters were utilized followed by an 8 quarter straight line reversion period to long term averages.

A summary of the changes in the allowance for credit losses and certain asset quality ratios for the years ended December 31, 2023 and 2022 are presented below.

(Dollars in thousands)	Year ended December 31 2023	2022
Allowance for credit losses:		
Balance at beginning of period	$ 5,765	4,939
Impact of adopting ASC 326	1,019	—
Charge-offs:		
Commercial and industrial	(164)	(222)
Consumer installment	(105)	(70)
Total charge-offs	(269)	(292)
Recoveries:		
Commercial and industrial	204	7
Commercial real estate	—	23
Residential real estate	14	26
Consumer installment	5	62
Total recoveries	223	118
Net charge-offs	(46)	(174)
Provision for credit losses	125	1,000
Ending balance	$ 6,863	5,765
as a % of loans	1.23 %	1.14
as a % of nonperforming loans	753 %	211
Net charge-offs as a % of average loans	0.01 %	0.04

Nonperforming Assets

At December 31, 2023 the Company had $0.9 million in nonperforming assets compared to $2.7 million at December 31, 2022. The decrease in nonperforming was primarily related to the resolution of a collateral dependent nonperforming loan relationship, with a recorded investment of $1.3 million, that was collected in full during the second quarter of 2023.

Table of Contents

The table below provides information concerning total nonperforming assets and certain asset quality ratios.

(Dollars in thousands)		December 31 2023		2022
Nonperforming assets:				
Nonperforming (nonaccrual) loans	$	911		2,731
Total nonperforming assets	$	911		2,731
as a % of loans and other real estate owned		0.16	%	0.54
as a % of total assets		0.09	%	0.27
Nonperforming loans as a % of total loans		0.16	%	0.54
Accruing loans 90 days or more past due	$	—		—

The table below provides information concerning the composition of nonaccrual loans at December 31, 2023 and 2022, respectively.

(In thousands)		December 31 2023	2022
Nonaccrual loans:			
Commercial and industrial	$	—	443
Commercial real estate		783	2,116
Residential real estate		128	172
Total nonaccrual loans	$	911	2,731

The Company discontinues the accrual of interest income when (1) there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or (2) the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection.

There were no loans 90 days past due and still accruing interest at December 31, 2023 and 2022, respectively.

The Company had no OREO at December 31, 2023 and 2022, respectively.

Deposits

(In thousands)		December 31 2023	2022
Noninterest bearing demand	$	270,723	311,371
NOW		190,724	178,641
Money market		148,040	214,298
Savings		88,541	95,652
Certificates of deposit under $250,000		100,572	93,017
Certificates of deposit and other time deposits of $250,000 or more		97,643	57,358
Total deposits	$	896,243	950,337

Total deposits decreased $54.1 million, or 6%, to $896.2 million at December 31, 2023, compared to $950.3 million at December 31, 2022. During 2023, deposit outflows due to the sale of $59.0 million of reciprocal deposits were partially offset by net deposit inflows of $4.9 million. The Company had no brokered deposits at December 31, 2023 and 2022. The Company had no FHLB-Atlanta advances or other wholesale borrowings outstanding at December 31, 2023 and 2022. Noninterest-bearing deposits were $270.7 million, or 30% of total deposits, at December 31, 2023, compared to $311.4 million, or 33% of total deposits at December 31, 2022. The decrease reflects net outflows to higher yield investment alternatives in a rising interest rate environment and a decline in balances in existing accounts due to increased customer spending.

The average rates paid on total interest-bearing deposits were 1.21% in 2023 and 0.34% in 2022.

At December 31, 2023, estimated uninsured deposits totaled $356.3 million, or 40% of total deposits, compared to $381.7 million, or 40% of total deposits at December 2022. During 2023, the Bank began participating in the Certificates of Deposit Account Registry Service (the "CDARS") and the Insured Cash Sweep product ("ICS"), which provide for reciprocal ("two-way") transactions among banks facilitated by IntraFi for the purpose of maximizing FDIC insurance. The Company had no reciprocal deposits at December 31, 2023. Uninsured amounts are estimated based on the portion of account balances that exceed FDIC insurance limits. The Bank's uninsured deposits at December 31, 2023 and 2022 include approximately $206.2 million and $155.0 million, respectively, of deposits of state, county and local governments that are collateralized by securities having a fair value equal to such deposits. Deposits of state, county and local governments were 53% and 41% of our estimated uninsured deposits at December 31, 2023 and 2022, respectively.

The FDIC has proposed a special assessment on uninsured deposits of banks with over $5 billion in uninsured deposits to the FDIC Deposit Insurance Fund's costs of the systemic risk determination made in connection with two recent bank failures. This proposal will not apply to AuburnBank.

Other Borrowings

The Company had no long-term debt at December 31, 2023 and 2022. The Bank utilizes short and long-term non-deposit borrowings from time to time. Short-term borrowings generally consist of federal funds purchased and securities sold under agreements to repurchase with an original maturity of one year or less. The Bank had available federal funds lines totaling $61.0 million with no federal funds borrowed at December 31, 2023 and 2022, respectively. Securities sold under agreements to repurchase, which were entered into on behalf of certain customers totaled $1.5 million and $2.6 million at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the Bank had no borrowings from the Federal Reserve discount window. The Company did not borrow under the Federal Reserve BTFP during 2023.

The Bank is a member of the FHLB-Atlanta and has borrowed, and may in the future borrow from time to time under the FHLB-Atlanta's advance program to obtain funding for its growth. FHLB-Atlanta advances include both fixed and variable terms and are taken out with varying maturities, and which generally are secured by eligible assets. The Bank had no borrowings under FHLB-Atlanta's advance program at December 31, 2023 and 2022, respectively. At those dates, the Bank had $309.1 million and $312.6 million, respectively, of available lines of credit at the FHLB-Atlanta. Advances include both fixed and variable terms and may be taken out with varying maturities.

The average rates paid on short-term borrowings were 2.21% and 1.33% in 2023 and 2022, respectively.

CAPITAL ADEQUACY

At December 31, 2023, the Company's consolidated stockholders' equity (book value) was $76.5 million, or $21.90 per share, compared to $68.0 million, or $19.42 per share, at December 31, 2022. The increase from December 31, 2022 was primarily driven by net earnings of $1.4 million and other comprehensive income of $11.9 million related to unrealized gains/losses on securities available-for-sale, net of tax. These increases were partially offset by cash dividends paid of $3.8 million, a one-time charge of $0.8 million, net of tax, for the cumulative effect to adopt the CECL accounting standard on January 1, 2023, and $0.2 million in repurchases of the Company's common stock. Unrealized securities losses do not affect the Bank's capital for regulatory capital purposes.

The Company paid cash dividends of $1.08 per share in 2023, an increase of 2% from the same period in 2022. The Company's share repurchases of $0.2 million since December 31, 2022 resulted in 10,108 fewer outstanding common shares at December 31, 2023. These shares were repurchased at an average cost per share of $22.63.

On January 1, 2015, the Company and Bank became subject to the Basel III regulatory capital framework. The rules included the implementation of a capital conservation buffer of CET1 capital of 2.5% that is added to the minimum requirements for capital adequacy purposes. A banking organization with a capital conservation buffer of 2.5% or less is subject to limitations on capital distributions from "eligible retained earnings", including dividend payments, share repurchases and certain discretionary bonus payments. At December 31, 2023 and 2022, the Bank had a capital conservation buffer of 7.52% and 8.25%, respectively.

On August 26, 2020, the Federal Reserve and the other federal banking regulators adopted a final rule that amended the capital conservation buffer. The new rule revises the definition of "eligible retained income" for purposes of the maximum payout ratio to allow banking organizations to more freely use their capital buffers to promote lending and other financial intermediation activities, by making the limitations on capital distributions more gradual. The eligible retained income is now the greater of (i) net income for the four preceding quarters, net of distributions and associated tax effects not reflected in net income; and (ii) the average of all net income over the preceding four quarters. This rule only affects the capital buffers, and banking organizations were encouraged to make prudent capital distribution decisions.

The Federal Reserve has treated us as a "small bank holding company' under the Federal Reserve's Small Bank Holding Company Policy. Accordingly, our capital adequacy is evaluated at the Bank level, and not for the Company and its consolidated subsidiaries. The Bank's tier 1 leverage ratio was 9.72%, CET1 risk-based capital ratio was 14.52%, tier 1 risk-based capital ratio was 14.52%, and total risk-based capital ratio was 15.52% at December 31, 2023. These ratios exceed the minimum regulatory capital percentages of 5.0% for tier 1 leverage ratio, 6.5% for CET1 risk-based capital ratio, 8.0% for tier 1 risk-based capital ratio, and 10.0% for total risk-based capital ratio to be considered "well capitalized." The Bank's capital conservation buffer was 7.52% at December 31, 2023.

On July 27, 2023, the Federal Reserve, the Comptroller of the Currency and the FDIC issued a joint notice of proposed rulemaking to implement the Basel III endgame components. The proposal which is subject to public comment and change only applies to banks and holding companies with $100 billion or more of assets. The proposal includes provisions dealing with:

- Credit risk, which arises from the risk than an obligor fails to perform on an obligation;
- Market risk, which results from changes in the value of trading positions;
- Operational risk, which is the risk of losses resulting from inadequate or failed internal process, people, and systems, or from external events; and
- Credit valuation adjustment risk, which results from the risk of losses on certain derivative contracts.

The Basel III endgame regulatory proposals are not applicable to the Company or the Bank.

MARKET AND LIQUIDITY RISK MANAGEMENT

Management's objective is to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies. The Bank's Asset Liability Management Committee ("ALCO") is charged with the responsibility of monitoring these policies, which are designed to ensure an acceptable asset/liability composition. Two critical areas of focus for ALCO are interest rate risk and liquidity risk management.

Interest Rate Risk Management

In the normal course of business, the Company is exposed to market risk arising from fluctuations in interest rates because assets and liabilities may mature or reprice at different times. For example, if liabilities reprice faster than assets, and interest rates are generally rising, earnings will initially decline. In addition, assets and liabilities may reprice at the same time but by different amounts. For example, when the general level of interest rates is rising, the Company may increase rates paid on interest bearing demand deposit accounts and savings deposit accounts by an amount that is less than the general increase in market interest rates. Also, short-term and long-term market interest rates may change by different amounts. For example, a flattening yield curve may reduce the interest spread between new loan yields and funding costs. The yield curve has been inverted during 2023 and in the first months of 2024. An inverted yield curve reduces the net interest margin expansion that may be expected otherwise as interest rates rise. Further, the remaining maturity of various assets and liabilities may shorten or lengthen as interest rates change. For example, if long-term mortgage interest rates decline sharply, mortgage-backed securities in the securities portfolio may prepay earlier than anticipated, which could reduce earnings. Interest rates may also have a direct or indirect effect on loan demand, loan losses, mortgage origination volume, the fair value of MSRs and other items affecting earnings.

ALCO measures and evaluates the interest rate risk so that we can meet customer demands for various types of loans and deposits. ALCO determines the most appropriate amounts of on-balance sheet and off-balance sheet items. Measurements used to help manage interest rate sensitivity include an earnings simulation and an economic value of equity model.

Earnings simulation

Management believes that interest rate risk is best estimated by our earnings simulation modeling. On at least a quarterly basis, we simulate the following 12-month time period to determine a baseline net interest income forecast and the sensitivity of this forecast to changes in interest rates. The baseline forecast assumes an unchanged or flat interest rate environment. Forecasted levels of earning assets, interest-bearing liabilities, and off-balance sheet financial instruments are combined with ALCO forecasts of market interest rates for the next 12 months and other factors in order to produce various earnings simulations and estimates.

To help limit interest rate risk, we have guidelines for earnings at risk which seek to limit the variance of net interest income from gradual changes in interest rates. For changes up or down in rates from management's flat interest rate forecast over the next 12 months, policy limits for net interest income variances are as follows:

+/- 20% for a gradual change of 400 basis points

+/- 15% for a gradual change of 300 basis points

+/- 10% for a gradual change of 200 basis points

+/- 5% for a gradual change of 100 basis points

The following table reports the variance of net interest income over the next 12 months assuming a gradual change in interest rates up or down when compared to the baseline net interest income forecast at December 31, 2023.

Changes in Interest Rates	Net Interest Income % Variance
400 basis points	(5.45)%
300 basis points	(3.85)
200 basis points	(2.32)
100 basis points	(1.03)
(100) basis points	(0.57)
(200) basis points	(1.33)
(300) basis points	(2.12)
(400) basis points	(2.95)

At December 31, 2023, our earnings simulation model indicated that we were in compliance with the policy guidelines noted above.

Economic Value of Equity

Economic value of equity ("EVE") measures the extent that estimated economic values of our assets, liabilities and off-balance sheet items will change as a result of interest rate changes. Economic values are estimated by discounting expected cash flows from assets, liabilities and off-balance sheet items, to which establish a base case EVE. In contrast with our earnings simulation model which evaluates interest rate risk over a 12-month timeframe, EVE uses a terminal horizon which allows for the re-pricing of all assets, liabilities, and off-balance sheet items. Further, EVE is measured using values as of a point in time and does not reflect any actions that ALCO might take in responding to or anticipating changes in interest rates, or market and competitive conditions.

To help limit interest rate risk, we have stated policy guidelines for an instantaneous basis point change in interest rates, such that our EVE should not decrease from our base case by more than the following:

35% for an instantaneous change of +/- 400 basis points

30% for an instantaneous change of +/- 300 basis points

25% for an instantaneous change of +/- 200 basis points

15% for an instantaneous change of +/- 100 basis points

The following table reports the variance of EVE assuming an immediate change in interest rates up or down when compared to the baseline EVE at December 31, 2023.

Changes in Interest Rates	EVE % Variance
400 basis points	(20.15) %
300 basis points	(12.94)
200 basis points	(6.79)
100 basis points	(2.76)
(100) basis points	(0.13)
(200) basis points	(3.45)
(300) basis points	(10.88)
(400) basis points	(12.07)

At December 31, 2023, our EVE model indicated that we were in compliance with the policy guidelines noted above.

Each of the above analyses may not, on its own, be an accurate indicator of how our net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates, and other economic and market factors, including market perceptions. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types of assets and liabilities may lag behind changes in general market rates. In addition, certain assets, such as adjustable-rate mortgage loans, have features (generally referred to as "interest rate caps and floors") which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates or economic stress, which may differ across industries and economic sectors. ALCO reviews each of the above interest rate sensitivity analyses along with several different interest rate scenarios in seeking satisfactory, consistent levels of profitability within the framework of the Company's established liquidity, loan, investment, borrowing, and capital policies.

The Company may also use derivative financial instruments to improve the balance between interest-sensitive assets and interest-sensitive liabilities and as one tool to manage interest rate sensitivity while continuing to meet the credit and deposit needs of our customers. From time to time, the Company may enter into interest rate swaps ("swaps") to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. At December 31, 2023 and 2022, the Company had no derivative contracts to assist in managing interest rate sensitivity.

Liquidity Risk Management

Liquidity is the Company's ability to convert assets into cash equivalents in order to meet daily cash flow requirements, primarily for deposit withdrawals, loan demand and maturing obligations. Without proper management of its liquidity, the Company could experience higher costs of obtaining funds due to insufficient liquidity, while excessive liquidity can lead to a decline in earnings due to the cost of foregoing alternative higher-yielding investment opportunities.

Table of Contents

Liquidity is managed at two levels. The first is the liquidity of the Company. The second is the liquidity of the Bank. The management of liquidity at both levels is essential, because the Company and the Bank are separate and distinct legal entities with different funding needs and sources, and each are subject to regulatory guidelines and requirements. The Company depends upon dividends from the Bank for liquidity to pay its operating expenses, debt obligations and dividends. The Bank's payment of dividends depends on its earnings, liquidity, capital and the absence of any regulatory restrictions.

The primary source of funding and liquidity for the Company has been dividends received from the Bank. The Company depends upon dividends from the Bank for liquidity to pay its operating expenses, debt obligations, if any, and cash dividends on, and repurchases of, Company common stock. The Bank's payment of dividends depends on its earnings, liquidity, capital and the absence of any regulatory restrictions. If needed, the Company could also issue common stock or other securities.

Primary sources of funding for the Bank include customer deposits, other borrowings, interest payments on earning assets, repayment and maturity of securities and loans, sales of securities, and the sale of loans, particularly residential mortgage loans. Primary uses of funds include repayment of maturing obligations and growing the loan portfolio.

The Bank has access to federal funds lines from various banks and borrowings from the Federal Reserve discount window, although it was not used by the Bank, the Federal Reserve's BTFP borrowing facility was available to the Bank during 2023. In addition to these sources, the Bank is eligible to participate in the FHLB-Atlanta's advance program to obtain funding for growth and liquidity. Advances include both fixed and variable terms and may be taken out with varying maturities. At December 31, 2023, the Bank had no FHLB-Atlanta advances outstanding and available credit from the FHLB-Atlanta of $312.6 million. At December 31, 2023, the Bank also had $61.0 million of available federal funds lines with no borrowings outstanding.

The following table presents additional information about our contractual obligations as of December 31, 2023, which by their terms had contractual maturity and termination dates subsequent to December 31, 2023:

	Payments due by period				
(Dollars in thousands)	**Total**	**1 year or less**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
Contractual obligations:					
Deposit maturities (1)	$ 896,243	864,461	16,866	14,916	—
Operating lease obligations	551	123	210	177	41
Total	$ 896,794	864,584	17,076	15,093	41

(1) Deposits with no stated maturity (demand, NOW, money market, and savings deposits) are presented in the "1 year or less" column

Management believes that the Company and the Bank have adequate sources of liquidity to meet all known contractual obligations and unfunded commitments, including loan commitments and reasonable borrower, depositor, and creditor requirements over the next 12 months.

Off-Balance Sheet Arrangements

At December 31, 2023, the Bank had outstanding standby letters of credit of $0.6 million and unfunded loan commitments outstanding of $73.6 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate federal funds sold, obtain FHLB-Atlanta advances, raise deposits, sell securities available-for-sale, or purchase federal funds from other financial institutions on a short-term basis while it obtains the other longer-term funding.

Residential mortgage lending and servicing activities

We primarily sell conforming residential mortgage loans in the secondary market to Fannie Mae while retaining the servicing of these loans (MSRs). The sale agreements for these residential mortgage loans with Fannie Mae and other investors include various representations and warranties regarding the origination and characteristics of the residential mortgage loans. Although the representations and warranties vary among investors, they typically cover ownership of the loan, validity of the lien securing the loan, the absence of delinquent taxes or liens against the property securing the loan, compliance with loan criteria set forth in the applicable agreement, compliance with applicable federal, state, and local laws, among other matters.

The Bank sells mortgage loans to Fannie Mae and services these on an actual/actual basis. As a result, the Bank is not obligated to make any advances to Fannie Mae on principal and interest on such mortgage loans where the borrower is entitled to forbearance.

As of December 31, 2023, the unpaid principal balance of residential mortgage loans, which we have originated and sold, but retained the servicing rights (MSRs) totaled $215.5 million. Although these loans are generally sold on a non-recourse basis, except for breaches of customary seller representations and warranties, we may have to repurchase residential mortgage loans in cases where we breach such representations or warranties or the other terms of the sale, such as where we fail to deliver required documents or the documents we deliver are defective. Investors also may require the repurchase of a mortgage loan when an early payment default underwriting review reveals significant underwriting deficiencies, even if the mortgage loan has subsequently been brought current. Repurchase demands are typically reviewed on an individual loan by loan basis to validate the claims made by the investor and to determine if a contractually required repurchase event has occurred. We seek to reduce and manage the risks of potential repurchases or other claims by mortgage loan investors through our underwriting, quality assurance and servicing practices, including good communications with our residential mortgage investors.

We service all residential mortgage loans originated and sold by us to Fannie Mae. As servicer, our primary duties are to: (1) collect payments due from borrowers; (2) advance certain delinquent payments of principal and interest; (3) maintain and administer any hazard, title, or primary mortgage insurance policies relating to the mortgage loans; (4) maintain any required escrow accounts for payment of taxes and insurance and administer escrow payments; and (5) foreclose on defaulted mortgage loans or take other actions to mitigate the potential losses to investors consistent with the agreements governing our rights and duties as servicer.

The agreement under which we act as servicer generally specifies our standards of responsibility for actions taken by us in such capacity and provides protection against expenses and liabilities incurred by us when acting in compliance with the respective servicing agreements. However, if we commit a material breach of our obligations as servicer, we may be subject to termination if the breach is not cured within a specified period following notice. The standards governing servicing and the possible remedies for violations of such standards are determined by servicing guides issued by Fannie Mae as well as the contract provisions established between Fannie Mae and the Bank. Remedies could include repurchase of an affected loan.

Although to date repurchase requests related to representation and warranty provisions, and servicing activities have been limited, it is possible that requests to repurchase mortgage loans may increase in frequency if investors more aggressively pursue all means of recovering losses on their purchased loans. As of December 31, 2023, we believe that this exposure is not material due to the historical level of repurchase requests and loss trends, the results of our quality control reviews, and the fact that 99% of our residential mortgage loans serviced for Fannie Mae were current as of such date. We maintain ongoing communications with our investors and will continue to evaluate this exposure by monitoring the level and number of repurchase requests as well as the delinquency rates in our investor portfolios.

The Company was not required to repurchase any loans during 2023 and 2022 as a result of representation and warranty provisions contained in the Company’s sale agreements with Fannie Mae, and had no pending repurchase or make-whole requests at December 31, 2023.

Effects of Inflation and Changing Prices

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with GAAP and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation.

Inflation can affect our noninterest expenses. It also can affect our customers' behaviors, and can affect the interest rates we have to pay on our deposits and other borrowings, and the interest rates we earn on our earning assets. The difference between our interest expense and interest income is also affected by the shape of the yield curve and the speeds at which our assets and liabilities, respectively, reprice in response to interest rate changes. The yield curve was inverted on December 31, 2023, which means shorter term interest rates are higher than longer interest rates. This results in a lower spread between our costs of funds and our interest income. In addition, net interest income could be affected by asymmetrical changes in the different interest rate indexes, given that not all our assets or liabilities are priced with the same index. Higher market interest rates and sales or maturities of securities held by the Federal Reserve to reduce inflation generally reduce economic activity and may reduce loan demand and growth. Inflation and related changes in market interest rates, as the Federal Reserve acts to meet its long term inflation goal of 2%, also can adversely affect the values and liquidity of our loans and securities, the value of collateral for our loans, and the success of our borrowers and such borrowers' available cash to pay interest on and principal of our loans to them.

Inflation is running at levels unseen in decades and, while it has declined during 2023, it remains above the Federal Reserve's long term inflation goal of 2% annually. Beginning in March 2022, the Federal Reserve has been raising target federal funds interest rates and reducing its securities holdings in an effort to reduce inflation. During 2022, the Federal Reserve increased the target federal funds range from 0 – 0.25% to 4.25 – 4.50%. The target federal funds rate was increased another 25 basis points on each of January 31, March 7, May 3 and July 26, 2023 to 5.25-5.50%, and further increases in the target federal funds rate may be made if inflation remains elevated. The Federal Reserve has indicated it will maintain higher target rates and restrictive monetary policy to meet its 2% inflation rate over the longer term and maximum employment goals. Our deposit costs may increase as the Federal Reserve increases its target federal funds rate, market interest rates increase, and as customer savings behaviors change as a result of inflation and customers seek higher market interest rates on deposits and other alternative investments. Monetary efforts to control inflation pursuant to the Federal Act's mandate to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates," may also affect unemployment which is an important component in our CECL model used to estimate our allowance for credit losses.

CURRENT ACCOUNTING DEVELOPMENTS

The following ASU has been issued by the FASB but is not yet effective.

- ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method; and*

- ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.*

Information about this pronouncement is described in more detail below.

ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, The amendments in this Update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2023. The Company does not expect the new standard to have a material impact on the Company's consolidated financial statements.

ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, The amendments in this Update enhance the transparency and decision usefulness of income tax disclosures. For public business entities, the new standard is effective for annual periods beginning after December 15, 2024. The Company does not expect the new standard to have a material impact on the Company's consolidated financial statements.

Table of Contents

Table 1 – Explanation of Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this annual report on Form 10-K includes certain designated net interest income amounts presented on a tax-equivalent basis, a non-GAAP financial measure, including the presentation of total revenue and the calculation of the efficiency ratio.

The Company believes the presentation of net interest income on a tax-equivalent basis provides comparability of net interest income from both taxable and tax-exempt sources and facilitates comparability within the industry. Although the Company believes these non-GAAP financial measures enhance investors' understanding of its business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP. The reconciliation of these non-GAAP financial measures from GAAP to non-GAAP is presented below.

					Year ended December 31
(In thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Net interest income (GAAP)	$ 26,328	27,166	23,990	24,338	26,064
Tax-equivalent adjustment	417	456	470	492	557
Net interest income (Tax-equivalent)	$ 26,745	27,622	24,460	24,830	26,621

Table of Contents

Table 2 - Selected Financial Data

(Dollars in thousands, except per share amounts)	Year ended December 31 2023	2022	2021	2020	2019
Income statement					
Tax-equivalent interest income (a)	$ 34,791	30,001	26,977	28,686	30,804
Total interest expense	8,046	2,379	2,517	3,856	4,183
Tax equivalent net interest income (a)	26,745	27,622	24,460	24,830	26,621
Provision for credit losses	135	1,000	(600)	1,100	(250)
Total noninterest income	(2,981)	6,506	4,288	5,375	5,494
Total noninterest expense	22,594	19,823	19,433	19,554	19,697
Net earnings before income taxes and tax-equivalent adjustment	1,035	13,305	9,915	9,551	12,668
Tax-equivalent adjustment	417	456	470	492	557
Income tax expense	(777)	2,503	1,406	1,605	2,370
Net earnings	$ 1,395	10,346	8,039	7,454	9,741
Per share data:					
Basic and diluted net earnings	$ 0.40	2.95	2.27	2.09	2.72
Cash dividends declared	$ 1.08	1.06	1.04	1.02	1.00
Weighted average shares outstanding					
Basic and diluted	3,498,030	3,510,869	3,545,310	3,566,207	3,581,476
Shares outstanding	3,493,614	3,503,452	3,520,485	3,566,276	3,566,146
Stockholders' equity (book value)	$ 21.90	19.42	29.46	30.20	27.57
Common stock price					
High	$ 24.50	34.49	48.00	63.40	53.90
Low	18.80	22.07	31.32	24.11	30.61
Period-end	$ 21.28	23.00	32.30	42.29	53.00
To earnings ratio	53.20x	7.80	14.23	20.23	19.49
To book value	97 %	118	110	140	192
Performance ratios:					
Return on average equity	2.05 %	12.48	7.54	7.12	10.35
Return on average assets	0.14 %	0.96	0.78	0.83	1.18
Dividend payout ratio	270.00 %	35.93	45.81	48.80	36.76
Average equity to average assets	6.66 %	7.72	10.39	11.63	11.39
Asset Quality:					
Allowance for credit losses as a % of:					
Loans	1.23 %	1.14	1.08	1.22	0.95
Nonperforming loans	753 %	211	1,112	1,052	2,345
Nonperforming assets as a % of:					
Loans and other real estate owned	0.16 %	0.54	0.18	0.12	0.04
Total assets	0.09 %	0.27	0.07	0.06	0.02
Nonperforming loans as % of loans	0.16 %	0.54	0.10	0.12	0.04
Net charge-offs (recoveries) as a % of average loans	0.01 %	0.04	0.02	(0.03)	0.03
Capital Adequacy (c):					
CET 1 risk-based capital ratio	14.52 %	15.39	16.23	17.27	17.28
Tier 1 risk-based capital ratio	14.52 %	15.39	16.23	17.27	17.28
Total risk-based capital ratio	15.52 %	16.25	17.06	18.31	18.12
Tier 1 leverage ratio	9.72 %	10.01	9.35	10.32	11.23
Other financial data:					
Net interest margin (a)	2.89 %	2.81	2.55	2.92	3.43
Effective income tax rate	(125.73) %	19.48	14.89	17.72	19.57
Efficiency ratio (b)	95.08 %	58.08	67.60	64.74	61.33
Selected period end balances:					
Securities	$ 270,910	405,304	421,891	335,177	235,902
Loans, net of unearned income	557,294	504,458	458,364	461,700	460,901
Allowance for credit losses	6,863	5,765	4,939	5,618	4,386
Total assets	975,255	1,023,888	1,105,150	956,597	828,570
Total deposits	896,243	950,337	994,243	839,792	724,152
Total stockholders' equity	76,507	68,041	103,726	107,689	98,328

(a) Tax-equivalent. See "Table 1 - Explanation of Non-GAAP Financial Measures".
(b) Efficiency ratio is the result of noninterest expense divided by the sum of noninterest income and tax-equivalent net interest income.
(c) Regulatory capital ratios presented are for the Company's wholly-owned subsidiary, AuburnBank.

Table of Contents

Table 3 - Average Balance and Net Interest Income Analysis

	Year ended December 31					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest-earning assets:						
Loans and loans held for sale (1)	$ 523,838	$ 24,925	4.76%	$ 454,604	$ 20,241	4.45%
Securities - taxable	335,366	7,208	2.15%	364,006	6,576	1.81%
Securities - tax-exempt (2)	52,122	1,985	3.81%	61,614	2,172	3.53%
Total securities	387,488	9,193	2.37%	425,620	8,748	2.06%
Federal funds sold	5,221	250	4.79%	43,766	435	1.00%
Interest bearing bank deposits	8,593	423	4.92%	58,141	577	0.99%
Total interest-earning assets	925,140	34,791	3.76%	982,131	30,001	3.05%
Cash and due from banks	15,230			15,108		
Other assets	81,438			77,496		
Total assets	$ 1,021,808			$ 1,074,735		
Interest-bearing liabilities:						
Deposits:						
NOW	$ 193,451	1,907	0.99%	$ 197,177	370	0.19%
Savings and money market	289,235	2,132	0.74%	327,139	649	0.20%
Certificates of deposits	175,085	3,935	2.25%	154,273	1,300	0.84%
Total interest-bearing deposits	657,771	7,974	1.21%	678,589	2,319	0.34%
Short-term borrowings	3,255	72	2.21%	4,516	60	1.33%
Total interest-bearing liabilities	661,026	8,046	1.22%	683,105	2,379	0.35%
Noninterest-bearing deposits	289,019			306,772		
Other liabilities	3,697			1,933		
Stockholders' equity	68,066			82,925		
Total liabilities and and stockholders' equity	$ 1,021,808			$ 1,074,735		
Net interest income and margin		$ 26,745	2.89%		$ 27,622	2.81%

(1) Average loan balances are shown net of unearned income and loans on nonaccrual status have been included in the computation of average balances.

(2) Yields on tax-exempt securities have been computed on a tax-equivalent basis using an income tax rate of 21%.

Table of Contents

Table 4 - Volume and Rate Variance Analysis

(Dollars in thousands)	Year ended December 31, 2023 vs. 2022 Net Change	Due to change in Rate (2)	Due to change in Volume (2)	Year ended December 31, 2022 vs. 2021 Net Change	Due to change in Rate (2)	Due to change in Volume (2)
Interest income:						
Loans and loans held for sale	$ 4,684	1,390	3,294	$ (232)	(5)	(227)
Securities - taxable	632	1,247	(615)	2,469	1,687	782
Securities - tax-exempt (1)	(187)	174	(361)	(70)	(30)	(40)
Total securities	445	1,421	(976)	2,399	1,657	742
Federal funds sold	(185)	1,661	(1,846)	380	329	51
Interest bearing bank deposits	(154)	2,285	(2,439)	477	666	(189)
Total interest income	$ 4,790	6,757	(1,967)	$ 3,024	2,647	377
Interest expense:						
Deposits:						
NOW	$ 1,537	1,574	(37)	$ 158	122	36
Savings and money market	1,483	1,762	(279)	(6)	(66)	60
Certificates of deposits	2,635	2,167	468	(333)	(292)	(41)
Total interest-bearing deposits	5,655	5,503	152	(181)	(236)	55
Short-term borrowings	12	40	(28)	43	8	35
Total interest expense	5,667	5,543	124	(138)	(228)	90
Net interest income	$ (877)	1,214	(2,091)	$ 3,162	2,875	287

(1) Yields on tax-exempt securities have been computed on a tax-equivalent basis using an income tax rate of 21%.

(2) Changes that are not solely a result of volume or rate have been allocated to volume.

Table of Contents

Table 5 - Net Charge-Offs (Recoveries) to Average Loans

(Dollars in thousands)	2023 Net (recoveries) charge-off	2023 Average Loans (2)	2023 Net (recovery) charge-off ratio	2022 Net charge-offs (recoveries)	2022 Average Loans (2)	2022 Net charge-off (recovery) ratio
Commercial and industrial (1)	$ (40)	64,565	(0.06)%	$ 215	69,973	0.31 %
Construction and land development	—	66,492	—	—	44,177	—
Commercial real estate	—	274,779	—	(23)	247,374	(0.01)
Residential real estate	(14)	108,891	(0.01)	(26)	85,223	(0.03)
Consumer installment	100	9,638	1.04	8	7,915	0.10
Total	$ 46	524,365	0.01 %	$ 174	454,662	0.04 %

(1) Excludes PPP loans, which are guaranteed by the SBA.
(2) Gross loan balances.

Table 6 - Loan Maturities

	December 31, 2023				
(Dollars in thousands)	1 year or less	1 to 5 years	5 to 15 years	After 15 years	Total
Commercial and industrial	$ 15,455	22,999	33,269	1,651	73,374
Construction and land development	37,684	27,105	3,540	—	68,329
Commercial real estate	23,139	111,988	148,200	3,980	287,307
Residential real estate	5,250	24,880	37,391	49,936	117,457
Consumer installment	4,159	5,536	1,132	—	10,827
Total loans	$ 85,687	192,508	223,532	55,567	557,294

Table 7 - Sensitivities to Changes in Interest Rates on Loans Maturing in More Than One Year

	December 31, 2023		
(Dollars in thousands)	Variable Rate	Fixed Rate	Total
Commercial and industrial	$ 84	57,835	57,919
Construction and land development	6,548	24,097	30,645
Commercial real estate	161	264,007	264,168
Residential real estate	49,561	62,646	112,207
Consumer installment	135	6,533	6,668
Total loans	$ 56,489	415,118	471,607

Table of Contents

Table 8 - Allocation of Allowance for Credit Losses

(Dollars in thousands)	2023		2022	
	Amount	%*	Amount	%*
Commercial and industrial	$ 1,288	13.2	$ 747	13.1
Construction and land development	960	12.3	949	13.2
Commercial real estate	3,921	51.5	3,109	52.4
Residential real estate	546	21.1	828	19.4
Consumer installment	148	1.9	132	1.9
Total allowance for credit losses	$ 6,863		$ 5,765	

* Loan balance in each category expressed as a percentage of total loans.

Table 9 - Estimated Uninsured Time Deposits by Maturity

(Dollars in thousands)	December 31, 2023
Maturity of:	
3 months or less	$ 12,503
Over 3 months through 6 months	21,940
Over 6 months through 12 months	50,384
Over 12 months	12,816
Total estimated uninsured time deposits	$ 97,643

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by ITEM 7A is set forth in ITEM 7 under the caption "Market and Liquidity Risk Management" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID: 149)	83
Consolidated Balance Sheets	86
Consolidated Statements of Earnings	87
Consolidated Statements of Comprehensive Income	88
Consolidated Statements of Stockholders' Equity	89
Consolidated Statements of Cash Flows	90
Notes to Consolidated Financial Statements	91

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
Auburn National Bancorporation, Inc. and Subsidiary

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Auburn National Bancorporation, Inc. and Subsidiary (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326*, Financial Instruments – Credit Losses (ASC 326).* The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with the previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent applications is also communicated as a critical audit matter below.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

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

Allowance for Credit Losses

As described in Note 5 to the Company's consolidated financial statements, the Company has a gross loan portfolio of $557.3 million and related allowance for credit losses of $6.9 million as of December 31, 2023. As described by the Company in Note 1, the allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Company's credit loss assumptions are estimated using a discounted cash flow ("DCF") model for each loan segment, except consumer loans. The weighted average remaining life method is used to estimate credit loss assumptions for consumer loans. The DCF model calculates an expected life-of-loan loss percentage by considering the forecasted probability that a borrower will default (the "PD"), adjusted for relevant forecasted macroeconomic factors, and loss given default ("LGD"), which is the estimate of the amount of net loss in the event of default. This model utilizes historical correlations between default experience and certain macroeconomic factors as determined through a statistical regression analysis. Projections of macroeconomic factors are obtained from an independent third party and are utilized to predict quarterly rates of default based on the statistical PD models. The weighted average remaining life method uses an annual charge-off rate over several vintages to estimate credit losses. Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are believed likely to cause estimated credit losses to differ from historical experience.

We identified the Company's estimate of the allowance for credit losses ("ACL") as a critical audit matter. The principal considerations for our determination of the allowance for credit losses as a critical audit matter related to the high degree of subjectivity in the Company's judgments in determining the macroeconomic data in the reasonable and supportable forecasts, as well as the qualitative factors. Auditing these complex judgments and assumptions by the Company involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included the following:

- We obtained an understanding of the Company's process for establishing the ACL, including the selection and application of forecasts and the basis for development and related adjustments of the qualitative factor components of the ACL.
- We evaluated the design and tested the operating effectiveness of controls relating to management's determination of the ACL, including controls over:
  - Management's process for selection of forecasts and the basis for development of qualitative factors of the ACL.
  - Management's review of reliability and accuracy of data used to calculate and estimate the various components of the ACL, including accuracy of the calculation and validation procedures.
  - Management's process to review the reasonableness of the forecasts and the qualitative factors, including any adjustments.

- We evaluated the reasonableness of management’s application of qualitative factor adjustments to the ACL, including the comparison of factors considered by management to third party or internal sources as well as evaluated the appropriateness and level of the qualitative factor adjustments.
- We assessed the overall trends in credit quality, including adjustments for the qualitative factors by comparing the overall allowance for credit losses to those recorded by the Company’s peer institutions.
- We evaluated subsequent events and transactions and considered whether they corroborated or contradicted the Company’s conclusion.

/s/ Elliott Davis, LLC

We have served as the Company's auditor since 2015.

Greenville, South Carolina
March 14, 2024

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Dollars in thousands, except share data)	December 31 2023	2022
Assets:		
Cash and due from banks	$ 27,127	$ 11,608
Federal funds sold	31,412	9,300
Interest bearing bank deposits	12,830	6,346
Cash and cash equivalents	71,369	27,254
Securities available-for-sale	270,910	405,304
Loans, net of unearned income	557,294	504,458
Allowance for credit losses	(6,863)	(5,765)
Loans, net	550,431	498,693
Premises and equipment, net	45,535	46,575
Bank-owned life insurance	17,110	19,952
Other assets	19,900	26,110
Total assets	$ 975,255	$ 1,023,888
Liabilities:		
Deposits:		
Noninterest-bearing	$ 270,723	$ 311,371
Interest-bearing	625,520	638,966
Total deposits	896,243	950,337
Federal funds purchased and securities sold under agreements to repurchase	1,486	2,551
Accrued expenses and other liabilities	1,019	2,959
Total liabilities	898,748	955,847
Stockholders' equity:		
Preferred stock of $0.01 par value; authorized 200,000 shares;		
issued shares - none	—	—
Common stock of $0.01 par value; authorized 8,500,000 shares;		
issued 3,957,135 shares	39	39
Additional paid-in capital	3,801	3,797
Retained earnings	113,398	116,600
Accumulated other comprehensive loss, net	(29,029)	(40,920)
Less treasury stock, at cost - 463,521 shares and 453,683 shares		
at December 31, 2023 and 2022, respectively	(11,702)	(11,475)
Total stockholders’ equity	76,507	68,041
Total liabilities and stockholders’ equity	$ 975,255	$ 1,023,888

See accompanying notes to consolidated financial statements

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings

	Year ended December 31	
(Dollars in thousands, except share and per share data)	**2023**	**2022**
Interest income:		
Loans, including fees	$ 24,925	$ 20,241
Securities:		
Taxable	7,208	6,576
Tax-exempt	1,568	1,716
Federal funds sold and interest bearing bank deposits	673	1,012
Total interest income	34,374	29,545
Interest expense:		
Deposits	7,974	2,319
Short-term borrowings	72	60
Total interest expense	8,046	2,379
Net interest income	26,328	27,166
Provision for credit losses	135	1,000
Net interest income after provision for credit losses	26,193	26,166
Noninterest income:		
Service charges on deposit accounts	603	598
Mortgage lending	430	650
Bank-owned life insurance	411	317
Gain on sale of premises and equipment	—	3,234
Other	1,870	1,695
Securities (losses) gains, net	(6,295)	12
Total noninterest income	(2,981)	6,506
Noninterest expense:		
Salaries and benefits	12,101	12,307
Employee retention credit	—	(1,569)
Net occupancy and equipment	2,954	2,742
Professional fees	1,299	975
FDIC and other regulatory assessments	631	404
Other	5,609	4,964
Total noninterest expense	22,594	19,823
Earnings before income taxes	618	12,849
Income tax (benefit) expense	(777)	2,503
Net earnings	$ 1,395	$ 10,346
Net earnings per share:		
Basic and diluted	$ 0.40	$ 2.95
Weighted average shares outstanding:		
Basic and diluted	3,498,030	3,510,869

See accompanying notes to consolidated financial statements

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

(Dollars in thousands)	Year ended December 31 2023	2022
Net earnings	$ 1,395	$ 10,346
Other comprehensive gain (loss), net of tax:		
Unrealized net holding gain (loss) on securities	7,177	(41,802)
Reclassification adjustment for net loss (gain) on securities recognized in net earnings	4,714	(9)
Other comprehensive income (loss)	11,891	(41,811)
Comprehensive income (loss)	$ 13,286	$ (31,465)

See accompanying notes to consolidated financial statements

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity

(Dollars in thousands, except share data)	Common Shares Outstanding	Common Stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total
Balance, December 31, 2021	3,520,485	$ 39	3,794	109,974	891	(10,972)	$ 103,726
Net earnings	—	—	—	10,346	—	—	10,346
Other comprehensive loss	—	—	—	—	(41,811)	—	(41,811)
Cash dividends paid ($1.06 per share)	—	—	—	(3,720)	—	—	(3,720)
Stock repurchases	(17,183)	—	—	—	—	(504)	(504)
Sale of treasury stock	150	—	3	—	—	1	4
Balance, December 31, 2022	3,503,452	$ 39	$ 3,797	$ 116,600	$ (40,920)	$ (11,475)	$ 68,041
Cumulative effect of change in accounting standard	—	—	—	(821)	—	—	(821)
Net earnings	—	—	—	1,395	—	—	1,395
Other comprehensive income	—	—	—	—	11,891	—	11,891
Cash dividends paid ($1.08 per share)	—	—	—	(3,776)	—	—	(3,776)
Stock repurchases	(10,108)	—	—	—	—	(229)	(229)
Sale of treasury stock	270	—	4	—	—	2	6
Balance, December 31, 2023	3,493,614	$ 39	$ 3,801	$ 113,398	$ (29,029)	$ (11,702)	$ 76,507

See accompanying notes to consolidated financial statements

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

(In thousands)	Year ended December 31 2023	2022
Cash flows from operating activities:		
Net earnings	$ 1,395	$ 10,346
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for credit losses	135	1,000
Depreciation and amortization	1,700	1,528
Premium amortization and discount accretion, net	2,380	3,091
Deferred tax (benefit) expense	(195)	686
Net loss (gain) on securities available for sale	6,295	(12)
Net gain on sale of loans held for sale	(71)	(309)
Net gain on other real estate owned	—	(162)
Loans originated for sale	(4,141)	(8,850)
Proceeds from sale of loans	4,174	10,424
Net loss (gain) on disposition of premises and equipment	—	(3,234)
Decrease (increase) in cash surrender value of bank owned life insurance	(359)	(317)
Income recognized from death benefit on bank-owned life insurance	(52)	—
Net decrease (increase) in other assets	2,652	(2,441)
Net decrease in accrued expenses and other liabilities	(2,011)	(770)
Net cash provided by operating activities	$ 11,902	$ 10,980
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	111,269	4,860
Proceeds from maturities, paydowns and calls of securities available-for-sale	30,329	45,921
Purchase of securities available-for-sale	—	(93,106)
Increase in loans, net	(52,892)	(46,268)
Net purchases of premises and equipment	(418)	(7,049)
Increase in FHLB stock	(164)	(74)
Proceeds from bank-owned life insurance death benefit	216	—
Proceeds from surrender of bank-owned like insurance death benefit	3,037	—
Proceeds from sale of premises and equipment	—	4,222
Proceeds from sale of other real estate owned	—	536
Net cash provided by (used in) investing activities	$ 91,377	$ (90,958)
Cash flows from financing activities:		
Net decrease in noninterest-bearing deposits	(40,648)	(4,761)
Net decrease in interest-bearing deposits	(13,446)	(39,145)
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(1,065)	(897)
Stock repurchases	(229)	(504)
Dividends paid	(3,776)	(3,720)
Net cash used in financing activities	$ (59,164)	$ (49,027)
Net change in cash and cash equivalents	$ 44,115	$ (129,005)
Cash and cash equivalents at beginning of period	27,254	156,259
Cash and cash equivalents at end of period	$ 71,369	$ 27,254
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 7,516	$ 2,341
Income taxes	1,230	1,351

See accompanying notes to consolidated financial statements

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Auburn National Bancorporation, Inc. (the "Company") is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, AuburnBank (the "Bank"). AuburnBank is a commercial bank located in Auburn, Alabama. The Bank provides a full range of banking services in its primary market area, Lee County, which includes the Auburn-Opelika Metropolitan Statistical Area.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which are managed as a single business segment. Significant intercompany transactions and accounts are eliminated in consolidation.

Revenue Recognition

The Company's sources of income that fall within the scope of ASC 606 include service charges on deposits, investment services, interchange fees and gains and losses on sales of other real estate, all of which are presented as components of noninterest income. The following is a summary of the revenue streams that fall within the scope of ASC 606:
Service charges on deposits, investment services, ATM and interchange fees – Fees from these services are either transaction-based, for which the performance obligations are satisfied when the individual transaction is processed, or set periodic service charges, for which the performance obligations are satisfied over the period the service is provided. Transaction-based fees are recognized at the time the transaction is processed, and periodic service charges are recognized over the service period.

Gains on sales of other real estate – A gain on sale should be recognized when a contract for sale exists and control of the asset has been transferred to the buyer. ASC 606 lists several criteria required to conclude that a contract for sale exists, including a determination that the institution will collect substantially all of the consideration to which it is entitled. In addition to the loan-to-value, the analysis is based on various other factors, including the credit quality of the borrower, the structure of the loan, and any other factors that may affect collectability.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for credit losses, fair value measurements, valuation of other real estate owned, and valuation of deferred tax assets.

Reclassifications

Certain amounts reported in the prior period have been reclassified to conform to the current-period presentation. These reclassifications had no impact on the Company's previously reported net earnings or total stockholders' equity.

Subsequent Events

The Company has evaluated the effects of events or transactions through the date of this filing that have occurred subsequent to December 31, 2023. The Company does not believe there are any material subsequent events that would require further recognition or disclosure.

Accounting Standards Adopted in 2023

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures.The transition adjustment upon the adoption of CECL on January 1, 2023 included an increase in the allowance for credit losses on loans of $1.0 million, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $0.1 million, which is recorded within other liabilities. The Company recorded a net decrease to retained earnings of $0.8 million as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available for sale securities was not deemed material.

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

The Company also adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" on January 1, 2023, the effective date of the guidance, on a prospective basis. ASU 2022-02 eliminated the accounting guidance for TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. Additionally, ASU 2022-02 requires an entity to disclose current-period gross write-offs by year of origination for financing receivables within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. ASU 2022-02 did not have a material impact on the Company's consolidated financial statements.

Issued not yet effective accounting standards

ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, The amendments in this Update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2023. The Company does not expect the new standard to have a material impact on the Company's consolidated financial statements.

ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, The amendments in this Update enhance the transparency and decision usefulness of income tax disclosures. For public business entities, the new standard is effective for annual periods beginning after December 15, 2024. The Company does not expect the new standard to have a material impact on the Company's consolidated financial statements.

Table of Contents

Cash Equivalents

Cash equivalents include cash on hand, cash items in process of collection, amounts due from banks, including interest bearing deposits with other banks, and federal funds sold.

Securities

Securities are classified based on management's intention at the date of purchase. At December 31, 2023, all of the Company's securities were classified as available-for-sale. Securities available-for-sale are used as part of the Company's interest rate risk and liquidity management strategy, and they may be sold in response to changes in interest rates, changes in prepayment risks or other factors. All securities classified as available-for-sale are recorded at fair value with any unrealized gains and losses reported in accumulated other comprehensive income (loss), net of the deferred income tax effects. Interest and dividends on securities, including the amortization of premiums and accretion of discounts are recognized in interest income using the effective interest method. Premiums are amortized to the earliest call date while discounts are accreted over the estimated life of the security. Realized gains and losses from the sale of securities are determined using the specific identification method.

For any securities classified as available-for-sale that are in an unrealized loss position at the balance sheet date, the Company assesses whether or not it intends to sell the security, or more likely than not will be required to sell the security, before recovery of its amortized cost basis. If either of these criteria are met, the security's amortized cost basis is written down to fair value through net income. If neither criterion is met, the Company evaluates whether any portion of the decline in fair value is the result of credit deterioration. Such evaluations consider the extent to which the amortized cost of the security exceeds its fair value, changes in credit ratings and any other known adverse conditions related to the specific security. If the evaluation indicates that a credit loss exists, an allowance for credit losses is recorded for the amount by which the amortized cost basis of the security exceeds the present value of cash flows expected to be collected, limited by the amount by which the amortized cost exceeds fair value. Any impairment not recognized in the allowance for credit losses is recognized in other comprehensive income.

Loans held for sale

The Company originates residential mortgage loans for sale. Such loans are carried at the lower of cost or estimated fair value in the aggregate. Loan sales are recognized when the transaction closes, the proceeds are collected, and ownership is transferred. Continuing involvement, through the sales agreement, consists of the right to service the loan for a fee for the life of the loan, if applicable. Gains on the sale of loans held for sale are recorded net of related costs, such as commissions, and reflected as a component of mortgage lending income in the consolidated statements of earnings.

The Bank makes various representations and warranties to the purchaser of the residential mortgage loans they originated and sells, primarily to Fannie Mae. Every loan closed by the Bank's mortgage center is run through Fannie Mea or other purchasing government sponsored enterprise ("GSE") automated underwriting system. Any exceptions noted during this process are remedied prior to sale. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Failure by the Company to comply with the underwriting and/or appraisal standards could result in the Company being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if the Company cannot cure such failure within the specified period following discovery.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans is recorded in other assets on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued but unpaid interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until the loan qualifies for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured. Otherwise, under the cost recovery method, interest income is not recognized until the loan balance is reduced to zero.

Allowance for Credit Losses – Loans

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management confirms the loan balance is uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company's loan loss estimation process includes procedures to appropriately consider the unique characteristics of its respective loan segments (commercial and industrial, construction and land development, commercial real estate, residential real estate, and consumer loans). These segments are further disaggregated into loan classes, the level at which credit quality is monitored. See Note 5, Loans and Allowance for Credit Losses, for additional information about our loan portfolio.

Credit loss assumptions are estimated using a discounted cash flow ("DCF") model for each loan segment, except consumer loans. The weighted average remaining life method is used to estimate credit loss assumptions for consumer loans.

The DCF model calculates an expected life-of-loan loss percentage by considering the forecasted probability that a borrower will default (the "PD"), adjusted for relevant forecasted macroeconomic factors, and loss given default ("LGD"), which is the estimate of the amount of net loss in the event of default. This model utilizes historical correlations between default experience and certain macroeconomic factors as determined through a statistical regression analysis. The forecasted Alabama unemployment rate is considered in the model for commercial and industrial, construction and land development, commercial real estate, and residential real estate loans. In addition, forecasted changes in the Alabama home price index is considered in the model for construction and land development and residential real estate loans. Forecasted changes in the national commercial real estate ("CRE") price index is considered in the model for commercial real estate and multifamily loans; and forecasted changes in the Alabama gross state product is considered in the model for multifamily loans. Projections of these macroeconomic factors, obtained from an independent third party, are utilized to predict quarterly rates of default based on the statistical PD models.

Expected credit losses are estimated over the contractual term of the loan, adjusted for expected prepayments and principal payments ("curtailments") when appropriate. Management's determination of the contract term excludes expected extensions, renewals, and modifications unless the extension or renewal option is included in the contract at the reporting date and is not unconditionally cancellable by the Company. To the extent the lives of the loans in the portfolio extend beyond the period for which a reasonable and supportable forecast can be made (which is 4 quarters for the Company), the Company reverts, on a straight-line basis back to the historical rates over an 8 quarter reversion period.

The weighted average remaining life method was deemed most appropriate for the consumer loan segment because consumer loans contain many different payment structures, payment streams and collateral. The weighted average remaining life method uses an annual charge-off rate over several vintages to estimate credit losses. The average annual charge-off rate is applied to the contractual term adjusted for prepayments.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are believed likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

Loans secured by real estate with balances equal to or greater than $500 thousand and loans not secured by real estate with balances equal to or greater than $250 thousand that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the estimated fair value of collateral held at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's consolidated statements of earnings. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's consolidated balance sheets.

On January 1, 2023, the Company recorded an adjustment for unfunded commitments of $77 thousand upon the adoption of ASC 326. At December 31, 2023, the liability for credit losses on off-balance-sheet credit exposures included in other liabilities was $0.3 million.

Provision for Credit Losses

The composition of the provision for credit losses for the respective periods is presented below.

	Years ended December 31,	
(Dollars in thousands)	**2023**	**2022**
Provision for credit losses:		
Loans	$ 125	$ 1,000
Unfunded commitments (1)	10	35
Total provision for credit losses	$ 135	$ 1,035

(1) Reserve requirements for unfunded commitments were reported as a component of other noninterest expense prior to the adoption of ASC 326.

Premises and Equipment

Land is carried at cost. Land improvements, buildings and improvements, and furniture, fixtures, and equipment are carried at cost, less accumulated depreciation computed on a straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Nonmarketable equity investments

Nonmarketable equity investments include equity securities that are not publicly traded and securities acquired for various purposes. The Bank is required to maintain certain minimum levels of equity investments in (i) Federal Reserve Bank of Atlanta based on the Bank's capital stock and surplus, and the (ii) Federal Home Bank of Atlanta ("FHLB – Atlanta") based on various factors including, the Bank's total assets, its borrowings and outstanding letters of credit from the FHLB - Atlanta and its "acquired member asset" sales to FHLB - Atlanta. These nonmarketable equity securities are accounted for at cost which equals par or redemption value. These securities do not have a readily determinable fair value as their ownership is restricted and there is no market for these securities. These securities can only be redeemed or sold at their par value by the respective issuer bank or, in the case of FHLB – Atlanta stock upon FHLB – Atlanta approval sale to another member of FHLB – Atlanta and law applicable to the member. The Company records these nonmarketable equity securities as a component of other assets, which are periodically evaluated for impairment. Management considers these nonmarketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Transfers of Financial Assets

Transfers of an entire financial asset (i.e. loan sales), a group of entire financial assets, or a participating interest in an entire financial asset (i.e. loan participations sold) are accounted for as sales when control over the assets have been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Mortgage Servicings Rights

The Company recognizes as assets the rights to service mortgage loans which it originates and sells to others, principally Fannie Mae. These servicing rights are called "MSRs". The Company determines the fair value of MSRs on sold loans at the date the loan is transferred. An estimate of the Company's MSRs is determined using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, and late fees.

Subsequent to the date of sale of the residential mortgage loans, the Company has elected to measure its MSRs on such sold mortgage loans under the amortization method. Under the amortization method, MSRs are amortized in proportion to, and over the period of, estimated net servicing income. The amortization of MSRs is analyzed monthly and is adjusted to reflect changes in prepayment speeds, as well as other factors. MSRs are evaluated for impairment based on the fair value of those assets. Impairment is determined by stratifying MSRs into groupings based on predominant risk characteristics, such as interest rate and loan type. If, by individual stratum, the carrying amount of the MSRs exceeds fair value, a valuation allowance is established through a charge to earnings. The valuation allowance is adjusted as the fair value changes. MSRs are included in the other assets category in the accompanying consolidated balance sheets at the lower of cost or fair value. *See Note 14 "Fair Value"*

Securities sold under agreements to repurchase

Securities sold under agreements to repurchase generally mature less than one year from the transaction date. Securities sold under agreements to repurchase are reflected as a secured borrowing in the accompanying consolidated balance sheets at the amount of cash received in connection with each transaction.

Income Taxes

Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The net deferred tax asset is reflected as a component of other assets in the accompanying consolidated balance sheets.

Table of Contents

Income tax expense or benefit for the year is allocated among continuing operations and other comprehensive income (loss), as applicable. The amount allocated to continuing operations is the income tax effect of the pretax income or loss from continuing operations that occurred during the year, plus or minus income tax effects of (1) changes in certain circumstances that cause a change in judgment about the realization of deferred tax assets in future years, (2) changes in income tax laws or rates, and (3) changes in income tax status, subject to certain exceptions. The amount allocated to other comprehensive income (loss) is related solely to changes in the valuation allowance on items that are normally accounted for in other comprehensive income (loss) such as unrealized gains or losses on available-for-sale securities.

In accordance with ASC 740, *Income Taxes*, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. It is the Company's policy to recognize interest and penalties related to income tax matters in income tax expense. The Company and its wholly-owned subsidiaries file consolidated Federal and State of Alabama income tax returns.

Fair Value Measurements

ASC 820, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 applies only to fair-value measurements that are already required or permitted by other accounting standards. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. For more information related to fair value measurements, please refer to Note 14, Fair Value.

NOTE 2: BASIC AND DILUTED NET EARNINGS PER SHARE

Basic net earnings per share is computed by dividing net earnings by the weighted average common shares outstanding for the year. Diluted net earnings per share reflect the potential dilution that could occur upon exercise of securities or other rights for, or convertible into, shares of the Company's common stock. As of December 31, 2023 and 2022, respectively, the Company had no such securities or other rights issued or outstanding, and therefore, no dilutive effect to consider for the diluted net earnings per share calculation.

The basic and diluted net earnings per share computations for the respective years are presented below.

	Year ended December 31	
(Dollars in thousands, except share and per share data)	**2023**	**2022**
Basic and diluted:		
Net earnings	$ 1,395	$ 10,346
Weighted average common shares outstanding	3,498,030	3,510,869
Net earnings per share	$ 0.40	$ 2.95

NOTE 3: VARIABLE INTEREST ENTITIES

Generally, a variable interest entity ("VIE") is a corporation, partnership, trust or other legal structure that does not have equity investors with substantive or proportional voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities.

At December 31, 2023, the Company did not have any consolidated VIEs and had one nonconsolidated VIE, which is discussed below.

New Markets Tax Credit Investment

The New Markets Tax Credit ("NMTC") program provides federal tax incentives to investors to make investments in distressed communities and promotes economic improvement through the development of successful businesses in these communities. The NMTC is available to investors over seven years and is subject to recapture if certain events occur

during such period. The Company had one NMTC investment with a balance of $1.7 million and $2.1 million at December 31, 2023 and 2022, respectively, which is included in other assets in the Company's consolidated balance sheets as a VIE. While the Company's investment exceeds 50% of the outstanding equity interests in this VIE, the Company does not consolidate the VIE because the Company lacks the power to direct the activities of the VIE, and therefore is not a primary beneficiary of the VIE.

(Dollars in thousands)	Maximum Loss Exposure	Asset Recognized	Classification
Type:			
New Markets Tax Credit investment	$ 1,708	$ 1,708	Other assets

NOTE 4: SECURITIES

At December 31, 2023 and 2022, respectively, all securities within the scope of ASC 320, *Investments – Debt and Equity Securities* were classified as available-for-sale. The fair value and amortized cost for securities available-for-sale by contractual maturity at December 31, 2023 and 2022, respectively, are presented below.

	1 year	1 to 5	5 to 10	After 10	Fair	Gross Unrealized		Amortized
(Dollars in thousands)	or less	years	years	years	Value	Gains	Losses	Cost
December 31, 2023								
Agency obligations (a)	$ 331	10,339	43,209	—	53,879	—	8,195	$ 62,074
Agency MBS (a)	32	15,109	22,090	161,058	198,289	—	27,838	226,127
State and political subdivisions	—	—	9,691	9,051	18,742	1	2,731	21,472
Total available-for-sale	$ 363	25,448	74,990	170,109	270,910	1	38,764	$ 309,673
December 31, 2022								
Agency obligations (a)	$ 4,935	50,746	69,936	—	125,617	—	15,826	$ 141,443
Agency MBS (a)	—	7,130	27,153	183,877	218,160	—	33,146	251,306
State and political subdivisions	300	642	15,130	45,455	61,527	11	5,681	67,197
Total available-for-sale	$ 5,235	58,518	112,219	229,332	405,304	11	54,653	$ 459,946

(a) Includes securities issued by U.S. government agencies or government sponsored entities. Expected lives of these securities may differ from contractual maturities because (i) issuers may have the right to call or repay such securities obligations with or without prepayment penalties and (ii) loans included in Agency MBS generally have the right to prepay such loans in whole or in part at any time.

Securities with aggregate fair values of $211.8 million and $208.3 million at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, FHLB advances, and for other purposes required or permitted by law.

Included in other assets on the accompanying consolidated balance sheets are nonmarketable equity investments. The carrying amounts of nonmarketable equity investments were $1.4 million and $1.2 million at December 31, 2023 and 2022, respectively. Nonmarketable equity investments include FHLB-Atlanta stock, Federal Reserve Bank stock, and stock in a privately held financial institution.

Fair Value and Gross Unrealized Losses

The fair values and gross unrealized losses on securities at December 31, 2023 and 2022, respectively, segregated by those securities that have been in an unrealized loss position for less than 12 months and 12 months or more are presented below.

	Less than 12 Months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023:						
Agency obligations	$ —	—	53,879	8,195	53,879	$ 8,195
Agency MBS	66	1	198,223	27,837	198,289	27,838
State and political subdivisions	793	2	14,408	2,729	15,201	2,731
Total	$ 859	3	266,510	38,761	267,369	$ 38,764
December 31, 2022:						
Agency obligations	$ 55,931	4,161	69,687	11,665	125,618	$ 15,826
Agency MBS	70,293	5,842	147,867	27,304	218,160	33,146
State and political subdivisions	44,777	2,176	13,043	3,505	57,820	5,681
Total	$ 171,001	12,179	230,597	42,474	401,598	$ 54,653

For the securities in the previous table, the Company considers the severity of the unrealized loss as well as the Company's intent to hold the securities to maturity or the recovery of the cost basis. Unrealized losses have not been recognized into income as the decline in fair value is largely due to changes in interest rates and other market conditions. For the securities in the previous table, as of December 31, 2023, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery.

Agency Obligations

Investments in agency obligations are guaranteed of full and timely payments by the issuing agency. Based on management's analysis and judgement, there were no credit losses attributable to the Company's investments in agency obligations at December 31, 2023.

Agency MBS

Investments in agency MBS are issued by Ginnie Mae, Fannie Mae, and Freddie Mac. Each of these agencies provide a guarantee of full and timely payments of principal and interest by the issuing agency. Based on management's analysis and judgement, there were no credit losses attributable to the Company's investments in agency MBS at December 31, 2023.

State and Political Subdivisions

Investments in state and political subdivisions are securities issued by various municipalities in the United States. The majority of the portfolio was rated AA or higher, with no securities rated below investment grade at December 31, 2023. Based on management's analysis and judgement, there were no credit losses attributable to the Company's investments in state and political subdivisions at December 31, 2023.

Realized Gains and Losses

The following table presents the gross realized gains and losses on sales related to securities.

(Dollars in thousands)	2023	2022
Gross realized gains	$ 1	48
Gross realized losses	(6,296)	(36)
Realized gains, net	$ (6,295)	12

NOTE 5: LOANS AND ALLOWANCE FOR CREDIT LOSSES

	December 31	
(In thousands)	**2023**	**2022**
Commercial and industrial	$ 73,374	$ 66,212
Construction and land development	68,329	66,479
Commercial real estate:		
Owner occupied	66,783	61,125
Hotel/motel	39,131	33,378
Multifamily	45,841	41,084
Other	135,552	128,986
Total commercial real estate	287,307	264,573
Residential real estate:		
Consumer mortgage	60,545	45,370
Investment property	56,912	52,278
Total residential real estate	117,457	97,648
Consumer installment	10,827	9,546
Total loans, net of unearned income	557,294	504,458

Loans secured by real estate were approximately 84.9% of the total loan portfolio at December 31, 2023. At December 31, 2023, the Company's geographic loan distribution was concentrated primarily in Lee County, Alabama and surrounding areas.

The loan portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. As part of the Company's quarterly assessment of the allowance, the loan portfolio is disaggregated into the following portfolio segments: commercial and industrial, construction and land development, commercial real estate, residential real estate and consumer installment. Where appropriate, the Company's loan portfolio segments are further disaggregated into classes. A class is generally determined based on the initial measurement attribute, risk characteristics of the loan, and an entity's method for monitoring and determining credit risk.

The following describe the risk characteristics relevant to each of the portfolio segments and classes.

Commercial and industrial ("C&I") — includes loans to finance business operations, equipment purchases, or other needs for small and medium-sized commercial customers. Also included in this category are loans to finance agricultural production. Generally, the primary source of repayment is the cash flow from business operations and activities of the borrower.

Construction and land development ("C&D") — includes both loans and credit lines for the purpose of purchasing, carrying and developing land into commercial developments or residential subdivisions. Also included are loans and lines for construction of residential, multi-family and commercial buildings. Generally the primary source of repayment is dependent upon the sale or refinance of the real estate collateral.

Commercial real estate ("CRE") — includes loans disaggregated in these classes:

Owner occupied – includes loans secured by business facilities to finance business operations, equipment and owner-occupied facilities primarily for small and medium-sized commercial customers. Generally the primary source of loan repayment are the cash flows from the business operations and activities of the borrower, who owns the property.

Hotel/motel – includes loans for hotels and motels. Generally, the primary source of repayment is dependent upon income generated from the real estate collateral. The underwriting of these loans takes into consideration the occupancy and rental rates, as well as the financial health of the borrower.

Multifamily – primarily includes loans to finance income-producing multi-family properties. Loans in this class include loans for 5 or more unit residential property and apartments leased to residents. Generally, the primary source of repayment is dependent upon income generated from the real estate collateral. The underwriting of these loans takes into consideration the occupancy and rental rates, as well as the financial health of the borrower.

Other – primarily includes loans to finance income-producing commercial properties. Loans in this class include loans for neighborhood retail centers, medical and professional offices, single retail stores, industrial buildings, and warehouses leased generally to local businesses and residents. Generally, the primary source of repayment is dependent upon income generated from the real estate collateral. The underwriting of these loans takes into consideration the occupancy and rental rates as well as the financial health of the borrower.

Residential real estate (“RRE”) — includes loans disaggregated into two classes:

Consumer mortgage – primarily includes first or second lien mortgages and home equity lines to consumers that are secured by a primary residence or second home. These loans are underwritten in accordance with the Bank’s general loan policies and procedures which require, among other things, proper documentation of each borrower’s financial condition, satisfactory credit history and property value.

Investment property – primarily includes loans to finance income-producing 1-4 family residential properties. Generally, the primary source of repayment is dependent upon income generated from leasing the property securing the loan. The underwriting of these loans takes into consideration the rental rates as well as the financial health of the borrower.

Consumer installment — includes loans to individuals both secured by personal property and unsecured. Loans include personal lines of credit, automobile loans, and other retail loans. These loans are underwritten in accordance with the Bank’s general loan policies and procedures which require, among other things, proper documentation of each borrower’s financial condition, satisfactory credit history, and if applicable, property value.

Table of Contents

The following is a summary of current, accruing past due and nonaccrual loans by portfolio class as of December 31, 2023 and 2022.

(In thousands)	Current	Accruing 30-89 Days Past Due	Accruing Greater than 90 days	Total Accruing Loans	Non-Accrual	Total Loans
December 31, 2023:						
Commercial and industrial	$ 73,108	266	—	73,374	—	$ 73,374
Construction and land development	68,329	—	—	68,329	—	68,329
Commercial real estate:						
Owner occupied	66,000	—	—	66,000	783	66,783
Hotel/motel	39,131	—	—	39,131	—	39,131
Multifamily	45,841	—	—	45,841	—	45,841
Other	135,552	—	—	135,552	—	135,552
Total commercial real estate	286,524	—	—	286,524	783	287,307
Residential real estate:						
Consumer mortgage	60,442	—	—	60,442	103	60,545
Investment property	56,597	290	—	56,887	25	56,912
Total residential real estate	117,039	290	—	117,329	128	117,457
Consumer installment	10,781	46	—	10,827	—	10,827
Total	$ 555,781	602	—	556,383	911	$ 557,294
December 31, 2022:						
Commercial and industrial	$ 65,764	5	—	65,769	443	$ 66,212
Construction and land development	66,479	—	—	66,479	—	66,479
Commercial real estate:						
Owner occupied	61,125	—	—	61,125	—	61,125
Hotel/motel	33,378	—	—	33,378	—	33,378
Multifamily	41,084	—	—	41,084	—	41,084
Other	126,870	—	—	126,870	2,116	128,986
Total commercial real estate	262,457	—	—	262,457	2,116	264,573
Residential real estate:						
Consumer mortgage	45,160	38	—	45,198	172	45,370
Investment property	52,278	—	—	52,278	—	52,278
Total residential real estate	97,438	38	—	97,476	172	97,648
Consumer installment	9,506	40	—	9,546	—	9,546
Total	$ 501,644	83	—	501,727	2,731	$ 504,458

Credit Quality Indicators

The credit quality of the loan portfolio is summarized no less frequently than quarterly using categories similar to the standard asset classification system used by the federal banking agencies. The following table presents credit quality indicators for the loan portfolio segments and classes by year of origination as of December 31, 2023. These categories are utilized to develop the associated allowance for credit losses using historical losses adjusted for qualitative and environmental factors and are defined as follows:

- Pass – loans which are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral.

- Special Mention – loans with potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant an adverse classification.

- Substandard Accruing – loans that exhibit a well-defined weakness which presently jeopardizes debt repayment, even though they are currently performing. These loans are characterized by the distinct possibility that the Company may incur a loss in the future if these weaknesses are not corrected.

- Nonaccrual – includes loans where management has determined that full payment of principal and interest is not expected.

Table of Contents

(Dollars in thousands)		2023	2022	2021	2020	2019	Prior to 2019	Revolving Loans		Total Loans
December 31, 2023:										
Commercial and industrial										
Pass	$	1,187	334	2,220	22,152	2,363	44,780	77	$	73,113
Special mention		—	—	—	—	—	—	—		—
Substandard		—	—	—	—	206	55	—		261
Nonaccrual		—	—	—	—	—	—	—		—
Total commercial and industrial		1,187	334	2,220	22,152	2,569	44,835	77		73,374
Current period gross charge-offs		—	—	13	—	151	—	—		164
Construction and land development										
Pass		6,771	13,326	11,461	11,070	4,329	20,758	614	$	68,329
Special mention		—	—	—	—	—	—	—		—
Substandard		—	—	—	—	—	—	—		—
Nonaccrual		—	—	—	—	—	—	—		—
Total construction and land development		6,771	13,326	11,461	11,070	4,329	20,758	614		68,329
Current period gross charge-offs		—	—	—	—	—	—	—		—
Commercial real estate:										
Owner occupied										
Pass		39	4,705	9,514	14,684	3,405	33,343	—	$	65,690
Special mention		—	—	—	—	—	260	—		260
Substandard		—	—	—	—	—	50	—		50
Nonaccrual		—	—	—	—	—	783	—		783
Total owner occupied		39	4,705	9,514	14,684	3,405	34,436	—		66,783
Current period gross charge-offs		—	—	—	—	—	—	—		—
Hotel/motel										
Pass		—	1,423	7,364	8,428	3,938	17,978	—	$	39,131
Special mention		—	—	—	—	—	—	—		—
Substandard		—	—	—	—	—	—	—		—
Nonaccrual		—	—	—	—	—	—	—		—
Total hotel/motel		—	1,423	7,364	8,428	3,938	17,978	—		39,131
Current period gross charge-offs		—	—	—	—	—	—	—		—

Table of Contents

(Dollars in thousands)	2023	2022	2021	2020	2019	Prior to 2019	Revolving Loans	Total Loans
December 31, 2023:								
Multi-family								
Pass	—	81	8,292	6,765	151	30,552	—	45,841
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Nonaccrual	—	—	—	—	—	—	—	—
Total multi-family	—	81	8,292	6,765	151	30,552	—	45,841
Current period gross charge-offs	—	—	—	—	—	—	—	—
Other								
Pass	3,225	5,234	20,796	27,979	5,771	72,393	—	135,398
Special mention	—	—	—	—	—	—	—	—
Substandard	154	—	—	—	—	—	—	154
Nonaccrual	—	—	—	—	—	—	—	—
Total other	3,379	5,234	20,796	27,979	5,771	72,393	—	135,552
Current period gross charge-offs	—	—	—	—	—	—	—	—
Residential real estate:								
Consumer mortgage								
Pass	5,624	7,483	13,500	4,332	2,427	22,164	3,890	59,420
Special mention	249	—	—	56	—	190	—	495
Substandard	160	84	58	—	209	16	—	527
Nonaccrual	—	—	45	—	—	58	—	103
Total consumer mortgage	6,033	7,567	13,603	4,388	2,636	22,428	3,890	60,545
Current period gross charge-offs	—	—	—	—	—	—	—	—
Investment property								
Pass	9,358	11,630	10,299	5,252	910	16,352	2,521	56,322
Special mention	—	—	—	—	—	41	—	41
Substandard	—	233	43	—	—	—	248	524
Nonaccrual	—	—	—	—	—	25	—	25
Total investment property	9,358	11,863	10,342	5,252	910	16,418	2,769	56,912
Current period gross charge-offs	—	—	—	—	—	—	—	—
Consumer installment								
Pass	58	29	728	2,466	1,227	6,210	—	10,718
Special mention	—	—	—	27	—	18	—	45
Substandard	—	—	12	25	—	27	—	64
Nonaccrual	—	—	—	—	—	—	—	—
Total consumer installment	58	29	740	2,518	1,227	6,255	—	10,827
Current period gross charge-offs	34	57	13	1	—	—	—	105
Total loans								
Pass	26,262	44,245	84,174	103,128	24,521	264,530	7,102	553,962
Special mention	249	—	—	83	—	509	—	841
Substandard	314	317	113	25	415	148	248	1,580
Nonaccrual	—	—	45	—	—	866	—	911
Total loans	$ 26,825	44,562	84,332	103,236	24,936	266,053	7,350	$ 557,294
Total current period gross charge-offs	$ 34	57	26	1	151	—	—	269

(In thousands)		Pass	Special Mention	Substandard Accruing	Nonaccrual		Total loans
December 31, 2022							
Commercial and industrial	$	65,550	7	212	443	$	66,212
Construction and land development		66,479	—	—	—		66,479
Commercial real estate:							
Owner occupied		60,726	238	161	—		61,125
Hotel/motel		33,378	—	—	—		33,378
Multifamily		41,084	—	—	—		41,084
Other		126,700	170	—	2,116		128,986
Total commercial real estate		261,888	408	161	2,116		264,573
Residential real estate:							
Consumer mortgage		44,172	439	587	172		45,370
Investment property		51,987	43	248	—		52,278
Total residential real estate		96,159	482	835	172		97,648
Consumer installment		9,498	1	47	—		9,546
Total	$	499,574	898	1,255	2,731	$	504,458

The following table is a summary of the Company's nonaccrual loans by major categories as of December 31, 2023 and 2022.

		CECL				Incurred Loss
		December 31, 2023				December 31, 2022
(Dollars in thousands)		Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans		Nonaccrual Loans
Commercial and industrial	$	—	—	—	$	443
Commercial real estate		783	—	783		2,116
Residential real estate		—	128	128		172
Total	$	783	128	911	$	2,731

The Company did not recognize any interest income on nonaccrual loans during 2023.

The Company designates individually evaluated loans on nonaccrual status as collateral-dependent loans, as well as other loans that management of the Company designates as having higher risk. Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral-dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized costs. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses:

(Dollars in thousands)		Real Estate		Total Loans
December 31, 2023:				
Commercial real estate	$	783	$	783
Total	$	783	$	783

The gross interest income which would have been recorded under the original terms of those nonaccrual loans had they been accruing interest, amounted to approximately $47 thousand and $26 thousand for the years ended December 31, 2023 and 2022, respectively.

Allowance for Credit Losses

The Company adopted ASC 326 on January 1, 2023, which introduced the CECL methodology for estimating all expected losses over the life of a financial asset. Under the CECL methodology, the allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics, and for loans that do not share similar risk characteristics with the collectively evaluated pools, evaluations are performed on an individual basis.

The following table details the changes in the allowance for credit losses by portfolio segment for the years ended December 31, 2023 and 2022.

(in thousands)		Commercial and industrial	Construction and land Development	Commercial Real Estate	Residential Real Estate	Consumer Installment		Total
Balance, December 31, 2021	$	857	518	2,739	739	86	$	4,939
Charge-offs		(222)	—	—	—	(70)		(292)
Recoveries		7	—	23	26	62		118
Net (charge-offs) recoveries		(215)	—	23	26	(8)		(174)
Provision		105	431	347	63	54		1,000
Balance, December 31, 2022	$	747	949	3,109	828	132	$	5,765
Impact of adopting ASC 326		532	(17)	873	(347)	(22)		1,019
Charge-offs		(164)	—	—	—	(105)		(269)
Recoveries		204	—	—	14	5		223
Net recoveries (charge-offs)		40	—	—	14	(100)		(46)
Provision		(31)	28	(61)	51	138		125
Balance, December 31, 2023	$	1,288	960	3,921	546	148	$	6,863

The following table presents an analysis of the allowance for loan losses and recorded investment in loans by portfolio segment and impairment methodology as of December 31, 2022, as determined, prior to adoption of ASC 326.

		Collectively evaluated (1)		Individually evaluated (2)		Total		
(In thousands)		Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses		Recorded investment in loans
December 31, 2022:								
Commercial and industrial	$	688	65,769	59	443	747	$	66,212
Construction and land development		949	66,479	—	—	949		66,479
Commercial real estate		2,663	262,457	446	2,116	3,109		264,573
Residential real estate		828	97,648	—	—	828		97,648
Consumer installment		132	9,546	—	—	132		9,546
Total	$	5,260	501,899	505	2,559	5,765	$	504,458

(1) Represents loans collectively evaluated for impairment prior to the adoption of ASC 326, in accordance with ASC 450-20, *Loss Contingencies,* and pursuant to amendments by ASU 2010-20 regards allowance for non-impaired loans.
(2) Represents loans individually evaluated for impairment, prior to adoption of ASC 326, in accordance with ASC 310-30, *Receivables*, pursuant to amendments by ASU 2010-20 regarding allowance for impaired loans.

Table of Contents

Impaired loans

The following tables present impaired loans at December 31, 2022 as determined under ASC 310 prior to the adoption of ASC 326. Loans that have been fully charged-off are not included in the following table. The related allowance generally represents the following components which correspond to impaired loans:

- Individually evaluated impaired loans equal to or greater than $500 thousand secured by real estate (nonaccrual construction and land development, commercial real estate, and residential real estate).

- Individually evaluated impaired loans equal to or greater than $250 thousand not secured by real estate (nonaccrual commercial and industrial and consumer loans).

The following table sets forth certain information regarding the Company's impaired loans that were individually evaluated for impairment at December 31, 2022.

	December 31, 2022			
(In thousands)	Unpaid principal balance (1)	Charge-offs and payments applied (2)	Recorded investment (3)	Related allowance
With no allowance recorded:				
Commercial and industrial	$ 210	(1)	$ 209	$ —
Commercial real estate:				
Owner occupied	858	(3)	855	—
Total commercial real estate	858	(3)	855	—
Total	1,068	(4)	1,064	—
With allowance recorded:				
Commercial and industrial	234	—	234	59
Commercial real estate:				
Owner occupied	1,261	—	1,261	446
Total commercial real estate	1,261	—	1,261	446
Total	1,495	—	1,495	505
Total impaired loans	$ 2,563	(4)	$ 2,559	$ 505

(1) Unpaid principal balance represents the contractual obligation due from the customer.
(2) Charge-offs and payments applied represents cumulative charge-offs taken, as well as interest payments that have been applied against the outstanding principal balance subsequent to the loans being placed on nonaccrual status.
(3) Recorded investment represents the unpaid principal balance less charge-offs and payments applied; it is shown before any related allowance for loan losses.

Pursuant to the adoption of ASU 2022-02, effective January 1, 2023, the Company prospectively discontinued the recognition and measurement guidance previously required for troubled debt restructurings (TDRs). As of December 31, 2023, the Company had no loans that would have previously required disclosure as TDRs.

The following table provides the average recorded investment in impaired loans, if any, by portfolio segment, and the amount of interest income recognized on impaired loans after impairment by portfolio segment and class for the year ended December 31, 2022 as determined under ASC 310 prior to adoption of ASC 326.

	Year ended December 31, 2022	
(In thousands)	Average recorded investment	Total interest income recognized
Impaired loans:		
Commercial and industrial	$ 34	$ —
Commercial real estate:		
Owner occupied	163	—
Other	153	—
Total commercial real estate	316	—
Residential real estate:		
Investment property	5	—
Total residential real estate	5	—
Total	$ 355	$ —

NOTE 6: PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2023 and 2022 is presented below.

	December 31	
(Dollars in thousands)	2023	2022
Land and improvements	$ 12,800	12,788
Buildings and improvements	35,442	35,241
Furniture, fixtures, and equipment	3,986	3,861
Construction in progress	39	39
Total premises and equipment	52,267	51,929
Less: accumulated depreciation	(6,732)	(5,354)
Premises and equipment, net	$ 45,535	46,575

Depreciation expense was approximately $1.4 million and $1.2 million for the years ended December 31, 2023 and 2022, respectively, and is a component of net occupancy and equipment expense in the consolidated statements of earnings.

NOTE 7: MORTGAGE SERVICING RIGHTS, NET

MSRs are recognized based on the fair value of the servicing rights on the date the corresponding mortgage loans are sold. An estimate of the Company's MSRs is determined using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, and late fees. Subsequent to the date of transfer, the Company has elected to measure its MSRs under the amortization method. Under the amortization method, MSRs are amortized in proportion to, and over the period of, estimated net servicing income. Servicing fee income is recorded net of related amortization expense and recognized in earnings as part of mortgage lending income.

The Company has recorded MSRs related to loans sold without recourse to Fannie Mae. The Company generally sells conforming, fixed-rate, closed-end, residential mortgages to Fannie Mae. MSRs are included in other assets on the accompanying consolidated balance sheets.

The Company evaluates MSRs for impairment on a quarterly basis. Impairment is determined by stratifying MSRs into groupings based on predominant risk characteristics, such as interest rate and loan type. If, by individual stratum, the carrying amount of the MSRs exceeds fair value, a valuation allowance is established. The valuation allowance is adjusted as the fair value changes. Changes in the valuation allowance are recognized in earnings as a component of mortgage lending income.

The following table details the changes in amortized MSRs and the related valuation allowance for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	Year ended December 31 2023	2022
Beginning balance	$ 1,151	1,309
Additions, net	38	111
Amortization expense	(197)	(269)
Ending balance	$ 992	1,151
Valuation allowance included in MSRs, net:		
Beginning of period	$ —	—
End of period	—	—
Fair value of amortized MSRs:		
Beginning of period	$ 2,369	1,908
End of period	2,382	2,369

Data and assumptions used in the fair value calculation related to MSRs at December 31, 2023 and 2022, respectively, are presented below.

(Dollars in thousands)	December 31 2023	2022
Unpaid principal balance	$ 216,648	234,349
Weighted average prepayment speed (CPR)	6.0 %	7.6
Discount rate (annual percentage)	10.5 %	9.5
Weighted average coupon interest rate	3.5 %	3.4
Weighted average remaining maturity (months)	245	256
Weighted average servicing fee (basis points)	25.0	25.0

At December 31, 2023, the weighted average amortization period for MSRs was 7.5 years. Estimated amortization expense for each of the next five years is presented below.

(Dollars in thousands)	December 31, 2023
2024	$ 126
2025	112
2026	100
2027	88
2028	78

NOTE 8: DEPOSITS

At December 31, 2023, the scheduled maturities of certificates of deposit and other time deposits are presented below.

(Dollars in thousands)		**December 31, 2023**
2024	$	166,433
2025		13,456
2026		3,410
2027		12,695
2028		2,221
Thereafter		—
Total certificates of deposit and other time deposits	$	198,215

Additionally, at December 31, 2023 and 2022, approximately $97.6 million and $57.4 million, respectively, of certificates of deposit and other time deposits were issued in denominations greater than $250 thousand.

At December 31, 2023 and 2022, the amount of deposit accounts in overdraft status that were reclassified to loans on the accompanying consolidated balance sheets was not material.

NOTE 9: LEASE COMMITMENTS

We lease certain office facilities and equipment under operating leases. Rent expense for all operating leases totaled $0.2 million for both years ended December 31, 2023 and 2022. Aggregate lease right of use assets were $485 thousand and $588 thousand at December 31, 2023 and 2022, respectively. Aggregate lease liabilities were $509 thousand and $611 thousand at December 31, 2023 and 2022, respectively. Rent expense includes amounts related to items that are not included in the determination of lease right of use assets including expenses related to short-term leases totaling $0.1 million for the year ended December 31, 2023.

Lease payments under operating leases that were applied to our operating lease liability totaled $123 thousand during the year ended December 31, 2023. The following table reconciles future undiscounted lease payments due under non-cancelable operating leases (those amounts subject to recognition) to the aggregate operating lease liability as of December 31, 2023.

(Dollars in thousands)		**Future lease payments**
2024	$	123
2025		114
2026		96
2027		96
2028		81
Thereafter		41
Total undiscounted operating lease liabilities	$	551
Imputed interest		42
Total operating lease liabilities included in the accompanying consolidated balance sheets	$	509
Weighted-average lease terms in years		5.01
Weighted-average discount rate		3.20 %

NOTE 10: OTHER COMPREHENSIVE LOSS

Comprehensive income is defined as the change in equity from all transactions other than those with stockholders, and it includes net earnings and other comprehensive loss. Other comprehensive loss for the years ended December 31, 2023 and 2022, is presented below.

(Dollars in thousands)		Pre-tax amount	Tax benefit (expense)	Net of tax amount
2023:				
Unrealized net holding gain on securities	$	9,584	(2,407)	7,177
Reclassification adjustment for net loss on securities recognized in net earnings		6,295	(1,581)	4,714
Other comprehensive income	$	15,879	(3,988)	11,891
2022:				
Unrealized net holding loss on securities	$	(55,819)	14,017	(41,802)
Reclassification adjustment for net gain on securities recognized in net earnings		(12)	3	(9)
Other comprehensive loss	$	(55,831)	14,020	(41,811)

NOTE 11: INCOME TAXES

For the years ended December 31, 2023 and 2022 the components of income tax expense from continuing operations are presented below.

		Year ended December 31	
(Dollars in thousands)		2023	2022
Current income tax (benefit) expense:			
Federal	$	(448)	1,461
State		(134)	356
Total current income tax (benefit) expense		(582)	1,817
Deferred income tax (benefit) expense:			
Federal		(293)	556
State		98	130
Total deferred income tax (benefit) expense		(195)	686
Total income tax (benefit) expense	$	(777)	2,503

Table of Contents

Total income tax expense differs from the amounts computed by applying the statutory federal income tax rate of 21% to earnings before income taxes. A reconciliation of the differences for the years ended December 31, 2023 and 2022, is presented below.

	2023		2022	
(Dollars in thousands)	Amount	Percent of pre-tax earnings	Amount	Percent of pre-tax earnings
Earnings before income taxes	$ 618		12,849	
Income taxes at statutory rate	130	21.0 %	2,698	21.0 %
Tax-exempt interest	(493)	(79.8)	(523)	(4.1)
State income taxes, net of federal tax effect	(43)	(7.0)	346	2.7
New Markets Tax Credit	(356)	(57.6)	(356)	(2.8)
Bank-owned life insurance	(88)	(14.2)	141	1.1
Other	73	11.9	197	1.6
Total income tax (benefit) expense	$ (777)	(125.7)%	2,503	19.5 %

At December 31, 2023 and 2022, the Company had a net deferred tax asset of $10.3 million and $13.8 million, respectively, included in other assets on the consolidated balance sheet. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2023 and 2022 are presented below.

	December 31	
(Dollars in thousands)	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 1,724	1,448
Unrealized loss on securities	9,734	13,722
Net operating loss carry-forwards	253	—
Tax credit carry-forwards	356	—
Accrued bonus	185	228
Right of use liability	128	153
Other	71	70
Total deferred tax assets	12,451	15,621
Deferred tax liabilities:		
Premises and equipment	1,315	767
Originated mortgage servicing rights	249	289
Right of use asset	122	148
New Markets Tax Credit investment	181	179
Other	332	469
Total deferred tax liabilities	2,199	1,852
Net deferred tax asset	$ 10,252	13,769

A valuation allowance is recognized for a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not that some portion of the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the periods which the temporary differences resulting in the remaining deferred tax assets are deductible, management believes it is more-likely-than-not that the Company will realize the benefits of these deductible differences at December 31, 2023. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

Table of Contents

The change in the net deferred tax asset for the years ended December 31, 2023 and 2022, is presented below.

(Dollars in thousands)		Year ended December 31 2023	2022
Net deferred tax asset (liability):			
Balance, beginning of year	$	13,769	435
Cumulative effect of change in accounting standard		276	—
Deferred tax expense related to continuing operations		195	(686)
Stockholders' equity, for accumulated other comprehensive income		(3,988)	14,020
Balance, end of year	$	10,252	13,769

ASC 740, *Income Taxes,* defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. This section also provides guidance on the de-recognition, measurement, and classification of income tax uncertainties in interim periods. As of December 31, 2023, the Company had no unrecognized tax benefits related to federal or state income tax matters. The Company does not anticipate any material increase or decrease in unrecognized tax benefits during 2024 relative to any tax positions taken prior to December 31, 2023. As of December 31, 2023, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company's policy to recognize interest and penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file consolidated U.S. federal and State of Alabama income tax returns. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and the State of Alabama for the years ended December 31, 2020 through 2023.

NOTE 12: EMPLOYEE BENEFIT PLAN

The Company sponsors a qualified defined contribution retirement plan, the Auburn National Bancorporation, Inc. 401(k) Plan (the "Plan"). Eligible employees may contribute up to 100% of eligible compensation, subject to statutory limits upon completion of 2 months of service. Furthermore, the Company allows employer Safe Harbor contributions. Participants are immediately vested in employer Safe Harbor contributions. The Company's matching contributions on behalf of participants were equal to $1.00 for each $1.00 contributed by participants, up to 3% of each participant's eligible compensation, and $0.50 for every $1.00 contributed by participants, above 3% up to 5% of each participant's eligible compensation, for a maximum matching contribution of 4% of the participants' eligible compensation. Company matching contributions to the Plan were approximately $0.3 million for the years ended December 31, 2023 and 2022, respectively, and are included in salaries and benefits expense.

NOTE 13: COMMITMENTS AND CONTINGENT LIABILITIES

Credit-Related Financial Instruments

The Company is party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2023 and 2022, the following financial instruments were outstanding whose contract amount represents credit risk.

(Dollars in thousands)		December 31 2023		2022
Commitments to extend credit	$	73,606	$	87,657
Standby letters of credit		629		1,041

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the commitment agreement and provided the commitments are not otherwise cancelable by the Bank. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. The Company records an allowance for credit losses on off-balance sheet exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's Consolidated Statement of Earnings, prior to the adoption of ASC 326, changes in the allowance were recorded as a component of other noninterest expense. The allowance for credit losses related to unfunded commitments was $0.3 million and $0.2 million at December 31, 2023 and 2022, respectively, and is included in other liabilities on the Company's Consolidated Balance Sheet. *See "Note 1: Summary of Significant Accounting Policies – Allowanace for credit losses – Unfunded commitments."*

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various assets as collateral, including accounts receivable, inventory, equipment, marketable securities, and property to support those commitments for which collateral is deemed necessary. The Company has a recorded a liability for the estimated fair value of these standby letters of credit in the amount of $9 thousand and $16 thousand at December 31, 2023 and 2022, respectively.

Contingent Liabilities

The Company and the Bank are involved in various legal proceedings, arising in connection with their business. In the opinion of management, based upon consultation with legal counsel, the ultimate resolution of these proceedings will not have a material adverse effect upon the consolidated financial condition or results of operations of the Company and the Bank.

NOTE 14: FAIR VALUE

Fair Value Hierarchy

"Fair value" is defined by ASC 820, *Fair Value Measurements and Disclosures*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for an asset or liability at the measurement date. GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1—inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets.

Level 2—inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable for the asset or liability, either directly or indirectly.

Level 3—inputs to the valuation methodology are unobservable and reflect the Company's own assumptions about the inputs market participants would use in pricing the asset or liability.

Level changes in fair value measurements

Transfers between levels of the fair value hierarchy are generally recognized at the end of the reporting period. The Company monitors the valuation techniques utilized for each category of financial assets and liabilities to ascertain when transfers between levels have been affected. The nature of the Company's financial assets and liabilities generally is such that transfers in and out of any level are expected to be infrequent. For the years ended December 31, 2023 and 2022, there were no transfers between levels and no changes in valuation techniques for the Company's financial assets and liabilities.

Assets and liabilities measured at fair value on a recurring basis

Securities available-for-sale

Fair values of securities available for sale were primarily measured using Level 2 inputs. For these securities, the Company obtains pricing from third party pricing services. These third-party pricing services consider observable data that may include broker/dealer quotes, market spreads, cash flows, market consensus prepayment speeds, benchmark yields, reported trades for similar securities, credit information and the securities' terms and conditions. On a quarterly basis, management reviews the pricing received from the third-party pricing services for reasonableness given current market conditions. As part of its review, management may obtain non-binding third party broker quotes to validate the fair value measurements. In addition, management will periodically submit pricing provided by the third-party pricing services to another independent valuation firm on a sample basis. This independent valuation firm will compare the price provided by the third-party pricing service with its own price and will review the significant assumptions and valuation methodologies used with management.

The following table presents the balances of the assets and liabilities measured at fair value on a recurring as of December 31, 2023 and 2022, respectively, by caption, on the accompanying consolidated balance sheets by ASC 820 valuation hierarchy (as described above).

(Dollars in thousands)	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023:				
Securities available-for-sale:				
Agency obligations	$ 53,879	—	53,879	—
Agency MBS	198,289	—	198,289	—
State and political subdivisions	18,742	—	18,742	—
Total securities available-for-sale	270,910	—	270,910	—
Total assets at fair value	$ 270,910	—	270,910	—
December 31, 2022:				
Securities available-for-sale:				
Agency obligations	$ 125,617	—	125,617	—
Agency MBS	218,160	—	218,160	—
State and political subdivisions	61,527	—	61,527	—
Total securities available-for-sale	405,304	—	405,304	—
Total assets at fair value	$ 405,304	—	405,304	—

Assets and liabilities measured at fair value on a nonrecurring basis

Collateral Dependent Loans

Collateral dependent loans are measured at the fair value of the collateral securing loan less estimated selling costs. The fair value of real estate collateral is determined based on real estate appraisals which are generally based on recent sales of comparable properties which are then adjusted for property specific factors. Non-real estate collateral is valued based on various sources, including third party asset valuations and internally determined values based on cost adjusted for depreciation and other judgmentally determined discount factors. Collateral dependent loans are classified within Level 3 of the hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

Mortgage servicing rights, net

Mortgage servicing rights, net, included in other assets on the accompanying consolidated balance sheets, are carried at the lower of cost or estimated fair value. MSRs do not trade in an active market with readily observable prices. To determine the fair value of MSRs, the Company engages an independent third party. The independent third party's valuation model calculates the present value of estimated future net servicing income using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, and late fees. Periodically, the Company will review broker surveys and other market research to validate significant assumptions used in the model. The significant unobservable inputs include prepayment speeds or the constant prepayment rate ("CPR") and the weighted average discount rate. Because the valuation of MSRs requires the use of significant unobservable inputs, all of the Company's MSRs are classified within Level 3 of the valuation hierarchy.

Table of Contents

The following table presents the balances of the assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022, respectively, by caption, on the accompanying consolidated balance sheets and by ASC 820 valuation hierarchy (as described above):

(Dollars in thousands)		Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023:					
Loans, net[1]	$	783	—	—	783
Other assets [2]		992	—	—	992
Total assets at fair value	$	1,775	—	—	1,775
December 31, 2022:					
Loans, net[3]	$	2,054	—	—	2,054
Other assets [2]		1,151	—	—	1,151
Total assets at fair value	$	3,205	—	—	3,205

[1]Loans considered collateral dependent under ASC 326

[2]Represents MSRs, net carried at lower of cost or estimated fair value.

[3]Loans considered impaired under ASC 310-10-35 Receivables, prior to the adoption of ASC 326. This amount reflects the recorded investment in impaired loans, net of any related allowance for loan losses.

Quantitative Disclosures for Level 3 Fair Value Measurements

At December 31, 2023 and 2022, the Company had no Level 3 assets measured at fair value on a recurring basis. For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2023 and 2022, the significant unobservable inputs used in the fair value measurements are presented below.

(Dollars in thousands)		Carrying Amount	Valuation Technique	Significant Unobservable Input	Range	Weighted Average of Input
December 31, 2023:						
Collateral dependent loans	$	783	Appraisal	Appraisal discounts	10.0 - 10.0 %	10.0%
Mortgage servicing rights, net		992	Discounted cash flow	Prepayment speed or CPR	5.9 - 10.6 %	6.0%
				Discount rate	10.5 - 12.5 %	10.5%
December 31, 2022:						
Impaired loans	$	2,054	Appraisal	Appraisal discounts	10.0 - 10.0 %	10.0%
Mortgage servicing rights, net		1,151	Discounted cash flow	Prepayment speed or CPR	5.2 - 18.6 %	7.6%
				Discount rate	9.5 - 11.5 %	9.5%

Fair Value of Financial Instruments

ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow analyses. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company's financial instruments, but rather are good faith estimates of the fair value of financial instruments held by the Company. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Loans, net

Fair values for loans were calculated using discounted cash flows. The discount rates reflected current rates at which similar loans would be made for the same remaining maturities. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments. The fair value of loans was measured using an exit price notion.

Time Deposits

Fair values for time deposits were estimated using discounted cash flows. The discount rates were based on rates currently offered for deposits with similar remaining maturities.

The carrying value, related estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments at December 31, 2023 and 2022 are presented below. This table excludes financial instruments for which the carrying amount approximates fair value. Financial assets for which fair value approximates carrying value included cash and cash equivalents. Financial liabilities for which fair value approximates carrying value included noninterest-bearing demand deposits, interest-bearing demand deposits, and savings deposits. Fair value approximates carrying value in these financial liabilities due to these products having no stated maturity. Additionally, financial liabilities for which fair value approximates carrying value included overnight borrowings such as federal funds purchased and securities sold under agreements to repurchase.

The following table summarizes our fair value estimates:

			Fair Value Hierarchy		
(Dollars in thousands)	**Carrying amount**	**Estimated fair value**	**Level 1 inputs**	**Level 2 inputs**	**Level 3 Inputs**
December 31, 2023:					
Financial Assets:					
Loans, net (1)	$ 550,431	$ 526,372	$ —	$ —	$ 526,372
Financial Liabilities:					
Time Deposits	$ 198,215	$ 195,171	$ —	$ 195,171	$ —
December 31, 2022:					
Financial Assets:					
Loans, net (1)	$ 498,693	$ 484,007	$ —	$ —	$ 484,007
Financial Liabilities:					
Time Deposits	$ 150,375	$ 150,146	$ —	$ 150,146	$ —

(1) Represents loans, net and the allowance for credit losses. The fair value of loans was measured usingan exit price notion.

NOTE 15: RELATED PARTY TRANSACTIONS

The Bank has made, and expects in the future to continue to make in the ordinary course of business, loans to directors and executive officers of the Company, the Bank, and their immediate families and affiliates. These persons, corporations, and firms have had transactions in the ordinary course of business with the Company and Bank, including borrowings, all of which management believes were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable tranactions with unaffiliated persons and did not involve more than the normal risk of collectability or present other unfavorable features. A summary of such outstanding loans is presented below:

(Dollars in thousands)	**Amount**
Loans outstanding at December 31, 2022	$ 1,646
New loans/advances	567
Repayments	(316)
Loans outstanding at December 31, 2023	$ 1,897

During 2023 and 2022, certain executive officers, directors and principal shareholders' of the Company and the Bank, including companies and related parties with which they are affiliated, were deposit customers of the bank. Total deposits for these persons at December 31, 2023 and 2022 amounted to $21.1 million and $22.8 million, respectively.

NOTE 16: REGULATORY RESTRICTIONS AND CAPITAL RATIOS

As required by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018, the Federal Reserve Board issued rule that expanded applicability of the Board's small bank holding company policy statement (the "Small BHC Policy Statement") and has been added as Appendix C to Federal Reserve Regulation Y. These increased the Small BHC Policy Statement's asset limit from $1 billion to $3 billion in total consolidated assets for a bank holding company or savings and loan holding company that: (1) is not engaged in significant nonbanking activities; (2) does not conduct significant off-balance sheet activities; and (3) does not have a material amount of debt or equity securities, other than trust-preferred securities, outstanding that are registered with the SEC. The interim final rule provides that, if warranted for supervisory purposes, the Federal Reserve may exclude a company from this asset level increase. The Federal Reserve has treated the Company as a small bank holding company for purposes of the Small BHC Policy Statement and therefore has considered only the Bank's capital and not the Company's consolidated capital.

The Bank remains subject to regulatory capital requirements of the Alabama Banking Department and the Federal Reserve. 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 their 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, necessary capital to support risks and other factors. Notwithstanding the minimum capital requirements, Federal Reserve Regulation Q states that a Federal Reserve-regulated institution must maintain capital commensurate with the level and nature of all risks to which such institution is exposed.

Federal Reserve Regulation Q limits "distributions" and discretionary bonus payments from eligible retained income" by sate member banks, such as the Bank, unless its capital conservation buffer of common equity Tier 1 capital ("CET1") exceeds 2.5%. "Distributions" include dividends declared or paid on common stock, and stock repurchases, redemptions or repurchases of Tier 2 capital instruments (unless replaced by a capital instrument in the same quarter). "Eligible retained income" for the Bank and other Federal Reserve regulated institutions is the greater of:

(A) The Board-regulated institution's net income, calculated in accordance with the instructions to the institution's FR Y–9C or Call Report, for the four calendar quarters preceding the current calendar quarter, net of any distributions and associated tax effects not already reflected in net income; and

(B) The average of the Board-regulated institution's net income, calculated in accordance with the instructions to the institutions' FR Y–9C or Call Report, as applicable, for the four calendar quarters preceding the current calendar quarter.

The Bank's Call Report is used for its calculation of "eligible retained income".

As of December 31, 2023, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. Management has not received any notification from the Bank's regulators that changes the Bank's regulatory capital status.

Table of Contents

The actual capital amounts and ratios for the Bank and the aforementioned minimums as of December 31, 2023 and 2022 are presented below.

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2023:						
Tier 1 Leverage Capital	$ 103,886	9.72 %	$ 42,732	4.00 %	$ 53,415	5.00 %
Common Equity Tier 1 Capital	103,886	14.52	32,194	4.50	46,503	6.50
Tier 1 Risk-Based Capital	103,886	14.52	42,926	6.00	57,234	8.00
Total Risk-Based Capital	111,035	15.52	57,234	8.00	71,543	10.00
At December 31, 2022:						
Tier 1 Leverage Capital	$ 106,886	10.01 %	$ 42,716	4.00 %	$ 53,394	5.00 %
Common Equity Tier 1 Capital	106,886	15.39	31,252	4.50	45,142	6.50
Tier 1 Risk-Based Capital	106,866	15.39	41,669	6.00	55,559	8.00
Total Risk-Based Capital	112,851	16.25	55,559	8.00	69,449	10.00

Dividends paid by the Bank are a principal source of funds available to the Company for payment of dividends to its stockholders and for other needs which are restricted by Alabama and Federal law and regulations as described above. Capital adequacy considerations could further limit the availability of dividends from the Bank. At December 31, 2023, the Bank could have declared additional dividends of approximately $ 8.2 million without prior approval of regulatory authorities. As a result of this limitation, approximately $ 68.3 million of the Company's investment in the Bank was restricted from transfer in the form of dividends.

NOTE 17: AUBURN NATIONAL BANCORPORATION (PARENT COMPANY)

The Parent Company's condensed balance sheets and related condensed statements of earnings and cash flows are as follows.

CONDENSED BALANCE SHEETS

	December 31	
(Dollars in thousands)	2023	2022
Assets:		
Cash and due from banks	$ 1,277	1,700
Investment in bank subsidiary	74,857	65,967
Other assets	523	522
Total assets	$ 76,657	68,189
Liabilities:		
Accrued expenses and other liabilities	$ 150	148
Total liabilities	150	148
Stockholders' equity	76,507	68,041
Total liabilities and stockholders' equity	$ 76,657	68,189

Table of Contents

CONDENSED STATEMENTS OF EARNINGS

(Dollars in thousands)		Year ended December 31 2023	2022
Income:			
Dividends from bank subsidiary	$	3,776	3,719
Noninterest income		8	78
Total income		3,784	3,797
Expense:			
Noninterest expense		239	326
Total expense		239	326
Earnings before income tax expense and equity in undistributed earnings of bank subsidiary		3,545	3,471
Income tax benefit		(30)	(48)
Earnings before equity in undistributed earnings of bank subsidiary		3,575	3,519
Equity in (distributed) undistributed earnings of bank subsidiary		(2,180)	6,827
Net earnings	$	1,395	10,346

CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)		Year ended December 31 2023	2022
Cash flows from operating activities:			
Net earnings	$	1,395	10,346
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net (increase) decrease in other assets		(1)	108
Net increase (decrease) in other liabilities		8	(408)
Equity in (distributed) undistributed earnings of bank subsidiary		2,180	(6,827)
Net cash provided by operating activities		3,582	3,219
Cash flows from financing activities:			
Dividends paid		(3,776)	(3,720)
Stock repurchases		(229)	(504)
Net cash used in financing activities		(4,005)	(4,224)
Net change in cash and cash equivalents		(423)	(1,005)
Cash and cash equivalents at beginning of period		1,700	2,705
Cash and cash equivalents at end of period	$	1,277	1,700

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management, under the supervision and with the participation of its principal executive and principal financial officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, and the results of the audit process described below, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the direction of the Company's Chief Executive Officer and Chief Financial Officer, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023 in accordance with the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013). Based on this assessment, management has concluded that such internal control over financial reporting was effective as of December 31, 2023.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting because it is a smaller reporting company.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, there has not been any change in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FORGEIN JURISDICTIONS THAT PREVENT INSPECTION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item is set forth under the headings "Proposal One: Election of Directors - Information about Nominees for Directors," and "Executive Officers," "Additional Information Concerning the Company's Board of Directors and Committees," "Executive Compensation," "Audit Committee Report" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement, and is incorporated herein by reference.

The Board of Directors has adopted a Code of Conduct and Ethics applicable to the Company's directors, officers and employees, including the Company's principal executive officer, principal financial and principal accounting officer, controller and other senior financial officers. The Code of Conduct and Ethics, as well as the charters for the Audit Committee, Compensation Committee, and the Nominating and Corporate Governance Committee, can be found by hovering over the heading "About Us" on the Company's website, *www.auburnbank.com*, and then clicking on "Investor Relations", and then clicking on "Governance Documents". In addition, this information is available in print to any shareholder who requests it. Written requests for a copy of the Company's Code of Conduct and Ethics or the Audit Committee, Compensation Committee, or Nominating and Corporate Governance Committee Charters may be sent to Auburn National Bancorporation, Inc., 100 N. Gay Street, Auburn, Alabama 36830, Attention: Marla Kickliter, Senior Vice President of Compliance and Internal Audit. Requests may also be made via telephone by contacting Marla Kickliter, Senior Vice President of Compliance and Internal Audit, or Laura Carrington, Vice President of Human Resources, at (334) 821-9200.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is set forth under the headings "Additional Information Concerning the Company's Board of Directors and Committees – Board Compensation," and "Executive Officers" in the Proxy Statement, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is set forth under the headings "Proposal One: Election of Directors - Information about Nominees for Directors and Executive Officers" and "Stock Ownership by Certain Persons" in the Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is set forth under the headings "Additional Information Concerning the Company's Board of Directors and Committees – Committees of the Board of Directors – Independent Directors Committee" and "Certain Transactions and Business Relationships" in the Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is set forth under the heading "Independent Public Accountants" in the Proxy Statement, and is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of all Financial Statements

The following consolidated financial statements and report of independent registered public accounting firm of the Company are included in this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2023 and 2022

Consolidated Statements of Earnings for the years ended December 31, 2023 and 2022

Consolidated Statements of Comprehensive Income for the years ended December 31, 2023 and 2022

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

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

Notes to the Consolidated Financial Statements

(b) Exhibits

3.1.	Certificate of Incorporation of Auburn National Bancorporation, Inc. (incorporated by reference from Registrant's Form 10-Q dated June 30, 2002 (File No. 000-26486)).
3.2.	Amended and Restated Bylaws of Auburn National Bancorporation, Inc., adopted as of November 13, 2007 (incorporated by reference from Registrant's Form 10-K dated March 31, 2008 (File No. 000-26486)).
4.1.	Description of the Registrant's Securities
21.1	Subsidiaries of Registrant
31.1	Certification signed by the Chief Executive Officer pursuant to SEC Rule 13a-14(a).
31.2	Certification signed by the Chief Financial Officer pursuant to SEC Rule 13a-14(a).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 by David A. Hedges, President and Chief Executive Officer *
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 by W. James Walker, IV, Senior Vice President and Chief Financial Officer.*
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101

* The certifications attached as exhibits 32.1 and 32.2 to this annual report on Form 10-K are "furnished" to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Table of Contents

(c) Financial Statement Schedules

All financial statement schedules required pursuant to this item were either included in the financial information set forth in (a) above or are inapplicable and therefore have been omitted.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Auburn, State of Alabama, on March 14, 2024.

AUBURN NATIONAL BANCORPORATION, INC.
(Registrant)

By: /S/ DAVID A. HEDGES
David A. Hedges
President and CEO

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

Signature	Title	Date
/S/ DAVID A. HEDGES David A. Hedges	President and Chief Executive Officer (Principal Executive Officer)	March 14, 2024
/S/ W. JAMES WALKER, IV W. James Walker, IV	SVP, Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2024
/S/ ROBERT W. DUMAS Robert W. Dumas	Chairman of the Board	March 14, 2024
/S/ C. WAYNE ALDERMAN C. Wayne Alderman	Director	March 14, 2024
/S/ TERRY W. ANDRUS Terry W. Andrus	Director	March 14, 2024
/S/ J. TUTT BARRETT J. Tutt Barrett	Director	March 14, 2024
/S/ LAURA J. COOPER Laura Cooper	Director	March 14, 2024
/S/ WILLIAM F. HAM, JR. William F. Ham, Jr.	Director	March 14, 2024
/S/ DAVID E. HOUSEL David E. Housel	Director	March 14, 2024
/S/ ANNE M. MAY Anne M. May	Director	March 14, 2024

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES
EXHIBIT 4.1

DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934

The following summarizes the terms of certain securities of Auburn National Bancorporation, Inc., a Delaware corporation (the "Company"). The Company's common stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The following summary does not purport to be complete and is qualified in its entirety by reference to the Company's Certificate of Incorporation (as amended, the "Charter") and Amended and Restated Bylaws (as amended, the "Bylaws"), each previously filed with the U.S. Securities and Exchange Commission, as well as reference to federal and state banking laws and regulations and the Delaware General Corporations Law (the "DGCL").

Authorized Capital

The Company's authorized capital stock consists of 8,500,000 shares of common stock, $.01 par value per share and 200,000 shares of preferred stock, $.01 par value per share.

Common Stock

Voting Rights. Each holder of common stock is entitled to one vote for each share held on all matters on which our shareholders are entitled to vote. Directors are elected by a majority vote, and no shareholder has the right to cumulative voting with respect to the election of directors.

Dividend Rights. Subject to the prior rights of holders of any then-outstanding shares of preferred stock, each share of common stock has equal rights to participate in dividends when, as and if declared by the board of directors out of funds legally available therefor.

Liquidation Rights. Subject to the prior rights of creditors and the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock, if any, in the event of a liquidation, the holders of common stock will be entitled to share ratably in any assets remaining after payment of all debts and other liabilities.

Other. Holders of common stock have no redemption or subscription, conversion or preemptive rights.

Exchange and Trading Symbol. The common stock is listed for trading on the NASDAQ Global Market under the symbol "AUBN."

Transfer Agent and Registrar. The transfer agent and registrar for the common stock is Computershare Investor Services LLC.

Preferred Stock

Shares of preferred stock may be issued for any purpose and in any manner permitted by law, in one or more distinctly designated series, including as a dividend or for such consideration as the board of directors may determine by resolution or resolutions adopted from time to time. The board of directors is expressly authorized to fix and state, by resolution or resolutions adopted from time to time prior to the issuance of any shares of a particular series of preferred stock, the designations, voting powers (if any), preferences, and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof. The rights of the holders of the common stock will generally be subject to the rights of the holders of any existing outstanding shares of preferred stock with respect to dividends, liquidation preferences and other matters.

As of the date hereof, the Company has no shares of preferred stock designated or outstanding.

Anti-takeover Effects

Certain provisions of the Charter and Bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of shareholders as beneficial to their interests. These provisions include (1) requiring, under certain circumstances, that a "Business Combination" (as defined in the Charter) be approved by (i) holders of at least 80% of the outstanding shares entitled to vote, and (ii) by a majority of shares held by persons other than "Related Persons" (as defined in the Charter), (2) prohibiting shareholders from removing directors without cause, and, in order to remove a director for cause, requiring approval of (i) at least 80% of the outstanding shares entitled to vote and (ii) a majority of shares held by persons other than "Related Persons," (3) advance notice for nominations of directors and shareholders' proposals, and (4) authority to issue "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by the board of directors. In addition, as a Delaware corporation, the Company is subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an "interested shareholder," defined generally as a person owning 15% or more of a corporation's outstanding voting stock, from engaging in a business combination with the corporation for three years following the date that person became an interested shareholder unless certain specified conditions are satisfied.

Restrictions on Ownership

The ability of a third party to acquire the Company is limited under applicable U.S. banking laws and regulations. The Bank Holding Company Act, or BHC Act, requires any bank holding company to obtain Federal Reserve approval prior to acquiring, directly or indirectly, 5% or more of any class of voting securities of the bank holding company. Any "company" (as defined in the BHC Act) other than a bank holding company would be required to obtain Federal Reserve approval before acquiring "control" of a bank holding company. "Control" generally means (i) the ownership or control of 25% or more of a class of voting securities, (ii) the ability to elect a majority of the directors or (iii) the ability otherwise to exercise a controlling influence over management and policies. A holder of 25% or more of the outstanding common stock of a bank holding company, other than an individual, is subject to regulation and supervision as a bank holding company under the BHC Act. On January 30, 2020, the Federal Reserve adopted new rules, effective September 30, 2020 simplifying determinations of control of banking organizations for BHC Act purposes.

In addition, under the Change in Bank Control Act of 1978, as amended, and the Federal Reserve's regulations thereunder, any person, either individually or acting through or in concert with one or more persons, is required to provide notice to the Federal Reserve prior to acquiring, directly or indirectly, 10% or more of the outstanding voting securities of a bank holding company, and receive nonobjection from the Federal Reserve.

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES
EXHIBIT 21.1 - SUBSIDIARIES

DIRECT SUBSIDIARIES	JURISDICTION OF INCORPORATION
AuburnBank	Alabama
INDIRECT SUBSIDIARIES	
Banc of Auburn, Inc.	Alabama
Auburn Mortgage Corporation	Alabama

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES
EXHIBIT 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, David A. Hedges, certify that:

1. I have reviewed this Annual Report on Form 10-K of Auburn National Bancorporation, Inc.;

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

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

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2024

/s/ David A. Hedges
President and CEO

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES
EXHIBIT 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, W. James Walker, IV, certify that:

1. I have reviewed this Annual Report on Form 10-K of Auburn National Bancorporation, Inc.;

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

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

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2024

/s/ W. James Walker, IV
SVP, Chief Financial Officer

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES
EXHIBIT 32.1

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

In connection with the Annual Report of Auburn National Bancorporation, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2023, as filed with the Securities and Exchange Commission as of the date hereof (the “Report”), I, David A. Hedges, President and Chief Executive Officer, certify, pursuant to 18 U.S.C. § 1350, as 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; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2024

/s/ David A. Hedges
David A. Hedges
President and CEO

This certification accompanies this Annual Report and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

A signed original of this written statement required by Section 906 has been provided to, and will be retained by, Auburn National Bancorporation, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

AUBURN NATIONAL BANCORPORATION, INC AND SUBSIDIARIES
EXHIBIT 32.2

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

In connection with the Annual Report of Auburn National Bancorporation, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2023, as filed with the Securities and Exchange Commission as of the date hereof (the “Report”), I, W. James Walker, IV, Senior Vice President, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as 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; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2024

/s/ W. James Walker, IV
W. James Walker, IV
SVP, Chief Financial Officer

This certification accompanies this Annual Report and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

A signed original of this written statement required by Section 906 has been provided to, and will be retained by, Auburn National Bancorporation, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.