

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

or

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

For the transition period from _____ to _____

Commission File Number: 333-191801

PRIME MERIDIAN HOLDING COMPANY

(Exact Name of registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or organization)

27-2980805

(I.R.S. Employer Identification Number)

1471 Timberlane Road; Tallahassee, Florida

(Address of principal executive offices)

32312

(Zip Code)

(850) 907-230029

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
None.	N/A	N/A

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

Explanatory Note: Prime Meridian Holding Company has filed, on a voluntary basis, all Securities Exchange Act of 1934 reports for the preceding 12 months.

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 5, 2024: 3,287,747

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PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Balance Sheets

	September 30, 2024	December 31, 2023
	<u>(Unaudited)</u>	
<i>(in thousands)</i>		
Assets		
Cash and due from banks	\$ 12,161	\$ 9,003
Federal funds sold	37,075	14,856
Interest-bearing deposits	47,288	4,557
Total cash and cash equivalents	<u>96,524</u>	<u>28,416</u>
Debt securities available for sale at fair value (amortized cost of \$98,586 and \$134,940)	90,935	124,475
Debt securities held to maturity (fair value of \$12,311 and \$10,358)	13,276	11,850
Loans held for sale	7,457	5,288
Loans, net of allowance for credit losses of \$5,389 and \$5,609	687,057	646,127
Federal Home Loan Bank stock	1,073	1,283
Premises and equipment, net	7,112	7,476
Right of use operating lease asset	2,654	2,823
Accrued interest receivable	3,213	3,114
Bank-owned life insurance	17,228	16,921
Other assets	5,093	6,755
Total assets	<u>\$ 931,622</u>	<u>\$ 854,528</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	\$ 202,659	\$ 189,426
Savings, NOW and money-market deposits	503,768	476,826
Time deposits	117,559	82,436
Total deposits	<u>823,986</u>	<u>748,688</u>
Federal Home Loan Bank advances	10,000	15,000
Official checks	1,338	2,377
Operating lease liability	2,857	3,013
Other liabilities, net	4,943	5,474
Total liabilities	<u>843,124</u>	<u>774,552</u>
Stockholders' equity:		
Preferred stock, undesignated; 1,000,000 shares authorized, none issued or outstanding	-	-
Common stock, \$.01 par value; 9,000,000 shares authorized, 3,293,755 and 3,259,881 issued and outstanding	33	33
Additional paid-in capital	41,452	40,522
Retained earnings	52,724	47,234
Accumulated other comprehensive loss	(5,711)	(7,813)
Total stockholders' equity	<u>88,498</u>	<u>79,976</u>
Total liabilities and stockholders' equity	<u>\$ 931,622</u>	<u>\$ 854,528</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Earnings (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
<i>(in thousands, except per share amounts)</i>				
Interest income:				
Loans	\$ 10,995	\$ 9,019	\$ 31,584	\$ 25,633
Debt securities	757	919	2,505	2,777
Other	942	244	1,408	650
Total interest income	<u>12,694</u>	<u>10,182</u>	<u>35,497</u>	<u>29,060</u>
Interest expense:				
Deposits	4,643	2,691	12,410	6,141
Other borrowings and FHLB advances	110	304	619	824
Total interest expense	<u>4,753</u>	<u>2,995</u>	<u>13,029</u>	<u>6,965</u>
Net interest income	7,941	7,187	22,468	22,095
Credit loss expense	100	175	755	743
Net interest income after credit loss expense	<u>7,841</u>	<u>7,012</u>	<u>21,713</u>	<u>21,352</u>
Noninterest income:				
Service charges and fees on deposit accounts	81	92	228	261
Debit card/ATM revenue, net	159	137	481	437
Mortgage banking revenue, net	133	121	329	250
Income from bank-owned life insurance	105	100	307	290
Other income	53	49	166	165
Total noninterest income	<u>531</u>	<u>499</u>	<u>1,511</u>	<u>1,403</u>
Noninterest expense:				
Salaries and employee benefits	3,011	2,864	8,900	8,359
Occupancy and equipment	408	427	1,238	1,235
Professional fees	151	149	447	416
Marketing	243	215	816	688
FDIC assessment	111	104	325	275
Software maintenance, amortization and other	433	341	1,378	912
Other	577	623	1,821	1,814
Total noninterest expense	<u>4,934</u>	<u>4,723</u>	<u>14,925</u>	<u>13,699</u>
Earnings before income taxes	3,438	2,788	8,299	9,056
Income taxes	835	668	1,991	2,178
Net earnings	<u>\$ 2,603</u>	<u>\$ 2,120</u>	<u>\$ 6,308</u>	<u>\$ 6,878</u>
Earnings per common share:				
Basic	\$ 0.79	\$ 0.66	\$ 1.92	\$ 2.15
Diluted	0.78	0.66	1.89	2.13
Cash dividends per common share	-	-	0.25	0.22

See Accompanying Notes to Condensed Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net earnings	\$ 2,603	\$ 2,120	\$ 6,308	\$ 6,878
Other comprehensive income (loss):				
Change in unrealized loss on debt securities available for sale-				
Unrealized gain (loss) arising during the period	3,011	(2,172)	2,814	(1,408)
Deferred income tax (expense) benefit on above change	(762)	551	(712)	357
Total other comprehensive income (loss)	2,249	(1,621)	2,102	(1,051)
Comprehensive income	<u>\$ 4,852</u>	<u>\$ 499</u>	<u>\$ 8,410</u>	<u>\$ 5,827</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders' Equity

Three and Nine Months ended September 30, 2024 and 2023

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
<i>(dollars in thousands)</i>						
Balance at December 31, 2022	3,164,491	\$ 32	\$ 39,718	\$ 37,278	\$ (9,975)	\$ 67,053
Impact of adopting ASC 326 (net of tax)	-	-	-	1,946	-	1,946
Net earnings for the three months ended March 31, 2023 (unaudited)	-	-	-	2,501	-	2,501
Dividends paid (unaudited)	-	-	-	(698)	-	(698)
Net change in unrealized loss on debt securities available for sale, net of income tax expense (unaudited)	-	-	-	-	1,478	1,478
Stock options exercised (unaudited)	15,867	-	273	-	-	273
Common stock issued as compensation to directors (unaudited)	1,573	-	40	-	-	40
Issuance of restricted stock (unaudited)	3,834	-	-	-	-	-
Stock-based compensation (unaudited)	-	-	83	-	-	83
Balance at March 31, 2023 (unaudited)	<u>3,185,765</u>	<u>\$ 32</u>	<u>\$ 40,114</u>	<u>\$ 41,027</u>	<u>\$ (8,497)</u>	<u>\$ 72,676</u>
Net earnings for the three months ended June 30, 2023 (unaudited)	-	-	-	2,257	-	2,257
Net change in unrealized loss on debt securities available for sale, net of income tax benefit (unaudited)	-	-	-	-	(908)	(908)
Stock options exercised (unaudited)	2,750	-	56	-	-	56
Common stock issued as compensation to directors (unaudited)	1,537	-	40	-	-	40
Stock-based compensation (unaudited)	-	-	49	-	-	49
Balance at June 30, 2023 (unaudited)	<u>3,190,052</u>	<u>\$ 32</u>	<u>\$ 40,259</u>	<u>\$ 43,284</u>	<u>\$ (9,405)</u>	<u>\$ 74,170</u>
Net earnings for the three months ended September 30, 2023 (unaudited)	-	-	-	2,120	-	2,120
Net change in unrealized loss on debt securities available for sale, net of income tax benefit (unaudited)	-	-	-	-	(1,621)	(1,621)
Common stock issued as compensation to directors (unaudited)	1,764	-	40	-	-	40
Issuance of restricted stock (unaudited)	71,917	1	(1)	-	-	-
Stock-based compensation (unaudited)	-	-	78	-	-	78
Balance at September 30, 2023 (unaudited)	<u>3,263,733</u>	<u>\$ 33</u>	<u>\$ 40,376</u>	<u>\$ 45,404</u>	<u>\$ (11,026)</u>	<u>\$ 74,787</u>

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders' Equity

Three and Nine Months ended September 30, 2024 and 2023

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2023	3,259,881	\$ 33	\$ 40,522	\$ 47,234	\$ (7,813)	\$ 79,976
Net earnings for the three months ended March 31, 2024 (unaudited)	-	-	-	1,931	-	1,931
Dividends paid (unaudited)	-	-	-	(818)	-	(818)
Net change in unrealized loss on debt securities available for sale, net of income tax benefit (unaudited)	-	-	-	-	(291)	(291)
Stock options exercised (unaudited)	23,940	-	481	-	-	481
Common stock issued as compensation to directors (unaudited)	1,654	-	41	-	-	41
Issuance of restricted stock (unaudited)	9,790	-	113	-	-	113
Stock-based compensation (unaudited)	-	-	6	-	-	6
Balance at March 31, 2024 (unaudited)	<u>3,295,265</u>	<u>\$ 33</u>	<u>\$ 41,163</u>	<u>\$ 48,347</u>	<u>\$ (8,104)</u>	<u>\$ 81,439</u>
Net earnings for the three months ended June 30, 2024 (unaudited)	-	-	-	1,774	-	1,774
Net change in unrealized loss on debt securities available for sale, net of income tax expense (unaudited)	-	-	-	-	144	144
Stock options exercised (unaudited)	-	-	-	-	-	-
Common stock issued as compensation to directors (unaudited)	1,798	-	44	-	-	44
Forfeiture of restricted stock (unaudited)	(3,200)	-	108	-	-	108
Stock-based compensation (unaudited)	-	-	2	-	-	2
Balance at June 30, 2024 (unaudited)	<u>3,293,863</u>	<u>\$ 33</u>	<u>\$ 41,317</u>	<u>\$ 50,121</u>	<u>\$ (7,960)</u>	<u>\$ 83,511</u>
Net earnings for the three months ended September 30, 2024 (unaudited)	-	-	-	2,603	-	2,603
Net change in unrealized loss on debt securities available for sale, net of income tax expense (unaudited)	-	-	-	-	2,249	2,249
Common stock issued as compensation to directors (unaudited)	992	-	25	-	-	25
Forfeiture of restricted stock (unaudited)	(1,100)	-	106	-	-	106
Stock-based compensation (unaudited)	-	-	4	-	-	4
Balance at September 30, 2024 (unaudited)	<u>3,293,755</u>	<u>\$ 33</u>	<u>\$ 41,452</u>	<u>\$ 52,724</u>	<u>\$ (5,711)</u>	<u>\$ 88,498</u>

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flow (Unaudited)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net earnings	\$ 6,308	\$ 6,878
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	525	540
Credit loss expense	755	743
Net amortization of deferred loan fees	75	207
Net accretion of discounts on debt securities	(202)	(208)
Gain on sale of loans held for sale	(329)	(250)
Proceeds from the sale of loans held for sale	52,198	48,454
Loans originated as held for sale	(54,038)	(46,328)
Stock issued as compensation to directors	110	120
Stock-based compensation expense	339	210
Income from bank-owned life insurance	(307)	(290)
Net increase in accrued interest receivable	(99)	(286)
Net change in operating leases	13	19
Net decrease (increase) in other assets	950	(268)
Net decrease in other liabilities and official checks	(1,710)	(2,776)
Net cash provided by operating activities	<u>4,588</u>	<u>6,765</u>
Cash flows from investing activities:		
Loan originations, net of principal repayments	(41,620)	(38,716)
Purchase of debt securities available for sale	(6,255)	(1,206)
Purchase of debt securities held to maturity	(1,396)	-
Principal repayments of debt securities available for sale	7,221	5,559
Maturities and calls of debt securities available for sale	35,560	12
Redemption (purchase) of Federal Home Loan Bank stock	210	(1,295)
Purchase of premises and equipment	(161)	(131)
Net cash used in investing activities	<u>(6,441)</u>	<u>(35,777)</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	75,298	(8,728)
Change in other borrowings	-	(4,275)
(Decrease) increase in Federal Home Loan Bank advances	(5,000)	25,000
Proceeds from stock options exercised	481	329
Common stock dividends paid	(818)	(698)
Net cash provided by financing activities	<u>69,961</u>	<u>11,628</u>
Net increase (decrease) in cash and cash equivalents	68,108	(17,384)
Cash and cash equivalents at beginning of period	28,416	39,788
Cash and cash equivalents at end of period	<u>\$ 96,524</u>	<u>\$ 22,404</u>
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	<u>\$ 12,952</u>	<u>\$ 6,719</u>
Income taxes	<u>\$ 2,180</u>	<u>\$ 2,387</u>
Noncash transactions:		
Accumulated other comprehensive income (loss), net change in unrealized loss on debt securities available for sale, net of income tax (expense) benefit	<u>\$ 2,102</u>	<u>\$ (1,051)</u>
Impact of adopting ASC 326 (net of tax)	<u>\$ -</u>	<u>\$ 1,946</u>
Loans transferred to other real estate owned	<u>\$ -</u>	<u>\$ 117</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) General

Prime Meridian Holding Company ("PMHG") owns 100% of the outstanding common stock of Prime Meridian Bank (the "Bank") (collectively the "Company"). PMHG's primary activity is the operation of the Bank. The Bank is a Florida state-chartered commercial bank, and the deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers a variety of community banking services to individual and corporate clients through its four banking offices located in Tallahassee, Crawfordville, and Lakeland, Florida and its online banking platform.

The accounting and financial reporting policies of the Company conform, in all material respects, to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The condensed consolidated financial statements in the Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all necessary adjustments for a fair presentation of the Company's condensed consolidated financial position and condensed consolidated results of operations. All adjustments were of a normal and recurring nature. The condensed consolidated financial statements have been prepared in accordance with GAAP and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (the "SEC"). Accordingly, the condensed consolidated financial statements do not include all information and footnotes required by GAAP for complete financial presentation and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2023, included in our Annual Report on Form 10-K filed with the SEC on March 21, 2024. The results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of the results to be expected for the full year or any future period.

Comprehensive Income. GAAP generally requires that recognized revenue, expenses, gains and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on debt securities available for sale, are reported as a separate component of the equity section of the condensed consolidated balance sheet, such items along with net earnings, are components of comprehensive income. The only component of other comprehensive income (loss) is the net change in the unrealized loss on debt securities available for sale.

Stock-Based Compensation. The Company expenses the fair value of stock options and restricted stock granted. The Company recognizes stock-based compensation expense in the condensed consolidated statements of earnings over the vesting period.

Derivatives. The Company enters into interest rate swaps in order to provide commercial loan clients the ability to swap from variable to fixed interest rates. Under these agreements, the Company enters into a variable rate loan with a client in addition to a swap agreement. This swap agreement effectively converts the client's variable rate loan into a fixed rate. The Company then enters into a matching swap agreement with a third-party dealer in order to offset its exposure on the client swap. The Company does not use derivatives for trading purposes. The derivative transactions are considered instruments with no hedging designation, otherwise known as stand-alone derivatives.

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) Debt Securities

Debt securities are classified according to management's intent. Our investments in U.S. agency mortgage-backed securities are with government-sponsored enterprises (GSEs) such as Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation. The amortized cost of debt securities and fair values are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(in thousands)</i>				
At September 30, 2024				
Debt Securities Available for Sale				
U.S. Government treasury and agency securities	\$ 13,247	\$ -	\$ (542)	\$ 12,705
Municipal securities	20,142	-	(1,545)	18,597
U.S. agency mortgage-backed securities	60,715	55	(5,588)	55,182
Asset-backed securities	4,482	6	(37)	4,451
Total	<u>\$ 98,586</u>	<u>\$ 61</u>	<u>\$ (7,712)</u>	<u>\$ 90,935</u>
Debt Securities Held to Maturity				
Municipal securities	\$ 9,289	\$ 36	\$ (1,057)	\$ 8,268
U.S. agency mortgage-backed securities	3,987	97	(41)	4,043
Total	<u>\$ 13,276</u>	<u>\$ 133</u>	<u>\$ (1,098)</u>	<u>\$ 12,311</u>
At December 31, 2023				
Debt Securities Available for Sale				
U.S. Government treasury and agency securities	\$ 46,492	\$ -	\$ (1,234)	\$ 45,258
Municipal securities	22,259	-	(2,151)	20,108
U.S. agency mortgage-backed securities	63,165	7	(7,013)	56,159
Asset-backed securities	3,024	-	(74)	2,950
Total	<u>\$ 134,940</u>	<u>\$ 7</u>	<u>\$ (10,472)</u>	<u>\$ 124,475</u>
Debt Securities Held to Maturity				
Municipal securities	\$ 9,257	\$ 39	\$ (1,378)	\$ 7,918
U.S. agency mortgage-backed securities	2,593	-	(153)	2,440
Total	<u>\$ 11,850</u>	<u>\$ 39</u>	<u>\$ (1,531)</u>	<u>\$ 10,358</u>

There were no debt securities available for sale sold during the three and nine months ended September 30, 2024 and 2023.

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) Debt Securities, Continued

Debt securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

	<i>Less Than Twelve Months</i>		<i>More Than Twelve Months</i>	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<i>(in thousands)</i>				
At September 30, 2024				
Debt Securities Available for Sale				
U.S. Government treasury and agency securities	\$ -	\$ -	\$ (542)	\$ 12,705
Municipal securities	-	-	(1,545)	18,597
U.S. agency mortgage-backed securities	(46)	3,674	(5,542)	50,328
Asset-backed securities	-	-	(37)	1,694
Total	<u>\$ (46)</u>	<u>\$ 3,674</u>	<u>\$ (7,666)</u>	<u>\$ 83,324</u>
Debt Securities Held to Maturity				
Municipal securities	\$ -	\$ -	\$ (1,057)	\$ 6,388
U.S. agency mortgage-backed securities	-	-	(41)	2,554
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,098)</u>	<u>\$ 8,942</u>
At December 31, 2023				
Debt Securities Available for Sale				
U.S. Government treasury and agency securities	\$ -	\$ -	\$ (1,234)	\$ 45,258
Municipal securities	(2)	386	(2,149)	19,722
U.S. agency mortgage-backed securities	-	-	(7,013)	54,987
Asset-backed securities	-	-	(74)	2,950
Total	<u>\$ (2)</u>	<u>\$ 386</u>	<u>\$ (10,470)</u>	<u>\$ 122,917</u>
Debt Securities Held to Maturity				
Municipal securities	\$ -	\$ -	\$ (1,378)	\$ 6,884
U.S. agency mortgage-backed securities	-	-	(153)	2,440
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,531)</u>	<u>\$ 9,324</u>

The unrealized losses at September 30, 2024 and December 31, 2023 on 95 and 103 debt securities, respectively, were caused by market conditions such as interest rate movements, and not changes in credit quality. It is expected that the debt securities would not be settled at a price less than the par value of the debt securities.

Management evaluates debt securities for credit loss where there has been a decline in fair value below the amortized cost basis of a debt security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Credit losses are calculated individually and collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the debt security.

Any credit loss component would be recognized through a credit loss expense. Consideration is given to (1) the financial condition and near-term prospects of the issuer including looking at default and delinquency rates, (2) the outlook for receiving the contractual cash flows of the debt securities, (3) the length of time and the extent to which the fair value has been less than cost, (4) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that we will be required to sell the debt security prior to recovering its fair value, (5) the anticipated outlook for changes in the general level of interest rates, (6) credit ratings, (7) third party guarantees, and (8) collateral values. In analyzing an issuer's financial condition, management considers whether the debt securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the results of reviews of the issuer's financial condition, and the issuer's anticipated ability to pay the contractual cash flows of the debt securities. The Company determined that the U.S. government agency and treasury securities (including mortgage-backed securities) have a zero expected credit loss. All of the government agency securities have the full faith and credit backing of the United States government or one of its agencies. Municipal securities and asset-backed securities that do not have a zero expected credit loss are evaluated quarterly by a third-party resource to determine whether there is a credit loss associated with a decline in fair value. At September 30, 2024 and December 31, 2023, all municipal and asset-backed securities were rated as investment grade. All debt securities in an unrealized loss position as of September 30, 2024 continue to perform as scheduled and we do not believe that there is a credit loss or that a credit loss expense is necessary. At September 30, 2024 and December 31, 2023, no debt securities are on nonaccrual. Also, as part of our evaluation of our intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, we consider our investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. We do not currently intend to sell the debt securities within the portfolio, and it is not more-likely-than-not that we will be required to sell the debt securities.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) Debt Securities, Continued

Debt securities available for sale measured at fair value on a recurring basis are summarized below:

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<i>(in thousands)</i>				
At September 30, 2024				
Debt Securities Available for Sale				
U.S. Government treasury and agency securities	\$ 12,705	\$ -	\$ 12,705	\$ -
Municipal securities	18,597	-	18,597	-
U.S. agency mortgage-backed securities	55,182	-	55,182	-
Asset-backed securities	4,451	-	4,451	-
Total	<u>\$ 90,935</u>	<u>\$ -</u>	<u>\$ 90,935</u>	<u>\$ -</u>
At December 31, 2023				
Debt Securities Available for Sale				
U.S. Government treasury and agency securities	\$ 45,258	\$ -	\$ 45,258	\$ -
Municipal securities	20,108	-	20,108	-
U.S. agency mortgage-backed securities	56,159	-	56,159	-
Asset-backed securities	2,950	-	2,950	-
Total	<u>\$ 124,475</u>	<u>\$ -</u>	<u>\$ 124,475</u>	<u>\$ -</u>

The scheduled maturities of debt securities are as follows:

	<u>Debt Securities Available for Sale</u>		<u>Debt Securities Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
<i>(in thousands)</i>				
Due in less than one year	\$ 8,368	\$ 8,287	\$ -	\$ -
Due in one to five years	11,953	11,161	-	-
Due in five to ten years	10,827	9,897	2,070	2,030
Due after ten years	6,723	6,408	7,219	6,238
U.S. agency mortgage-backed securities	60,715	55,182	3,987	4,043
Total	<u>\$ 98,586</u>	<u>\$ 90,935</u>	<u>\$ 13,276</u>	<u>\$ 12,311</u>

At September 30, 2024 and December 31, 2023 debt securities with a fair value of \$18.2 million and \$16.4 million, respectively, were pledged as collateral for public deposits.

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans

Segments and classes of loans, excluding loans held for sale, are as follows:

<i>(in thousands)</i>	At September 30, 2024	At December 31, 2023
Real estate mortgage loans:		
Commercial ⁽¹⁾	\$ 216,379	\$ 208,429
Residential and home equity ⁽¹⁾	297,887	273,383
Construction ⁽¹⁾	82,639	78,197
Total real estate mortgage loans	596,905	560,009
Commercial loans	89,788	85,983
Consumer and other loans	5,971	5,936
Total loans	692,664	651,928
Add (deduct):		
Net deferred loan fees	(218)	(192)
Allowance for credit losses	(5,389)	(5,609)
Loans, net	\$ 687,057	\$ 646,127

⁽¹⁾ Certain loans as of December 31, 2023 have been reclassified to conform to current loan class presentation.

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued

The Company has divided the loan portfolio into three portfolio segments and five portfolio classes, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten based upon standards set forth in the policies approved by the Company's Board of Directors. The Company identifies the portfolio segments and classes as follows:

Real Estate Mortgage Loans. Real estate mortgage loans are typically divided into three classes: commercial, residential and home equity, and construction loans.

Commercial. Loans of this type are typically our more complex loans. This category of real estate loans is comprised of loans secured by mortgages on commercial property that are typically owner-occupied, but also includes nonowner-occupied investment properties. Commercial loans that are secured by owner-occupied commercial real estate are repaid through operating cash flows of the borrower. Commercial loans that are secured by nonowner-occupied commercial real estate are underwritten by assessing the property's current and future income potential and appraised value. For both owner-occupied and nonowner-occupied commercial loans, the maturity is generally limited to three to five years; however, payments may be structured on a longer amortization basis. Typically, interest rates on these types of loans are fixed for five years or less after which they may adjust based upon a predetermined spread over a market index rate. At times, a rate may be fixed for longer than five years. As part of our credit underwriting standards, the Company typically requires personal guarantees from the principal owners of the business supported by a review of the principal owners' personal financial statements and tax returns. As part of the enterprise risk management process, it is understood that risks associated with commercial real estate loans include fluctuations in real estate values, the overall strength of the borrower and the economy, new job creation trends, tenant vacancy rates, environmental contamination, and the quality of the borrowers' management. In order to mitigate and limit these risks, we analyze the borrowers' cash flows and evaluate collateral value. Currently, the collateral securing our commercial real estate loans includes a variety of property types, such as office, warehouse, hotels, commercial properties and retail facilities. Generally, commercial real estate loans present a higher risk profile than our consumer real estate loan portfolio.

Residential and Home Equity. The Company offers first and second one-to-four family mortgage loans and home equity lines of credit; the collateral for these loans is generally the clients' owner-occupied residences. Although these types of loans present lower levels of risk than commercial real estate loans, risks do still exist because of possible fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrowers' financial condition. The nonowner-occupied investment properties are more similar in risk to commercial real estate loans, and therefore, are underwritten by assessing the property's income potential and appraised value. In both cases, we underwrite the borrower's financial condition and evaluate his or her global cash flow position. Borrowers may be affected by numerous factors, including job loss, illness, or other personal hardship. As part of our product mix, the Bank offers both portfolio and secondary market mortgages; portfolio loans generally are based on a 1-year, 3-year, 5-year, or 7-year adjustable rate mortgage; while 15-year or 30-year fixed-rate loans are generally sold in the secondary market. The Company also offers multi-family and mixed-use residential loans; risks associated with these types of real estate loans include fluctuations in real estate values, the overall strength of the borrower and the economy, new job creation trends, tenant vacancy rates, environmental contamination, and the quality of the borrowers' management. In order to mitigate and limit these risks, we analyze the borrowers' cash flows and evaluate the underlying collateral value.

Construction. Typically, these loans have a construction period of one to two years and the interest is paid monthly. Once the construction period terminates, some of these loans convert to a term loan with a maturity of one to ten years. This portion of our loan portfolio includes loans to small and midsized businesses to construct owner-user properties, loans to developers of commercial real estate investment properties, and residential developments. This type of loan is also made to individual clients for construction of single-family homes in our market area. An independent appraisal is used to determine the value of the collateral and confirm that the ratio of the loan principal to the value of the collateral will not exceed policies of the Bank. As the construction project progresses, loan proceeds are requested by the borrower to complete phases of construction and funding is only disbursed after the project has been inspected by a third-party inspector or experienced construction lender. Risks associated with construction loans include fluctuations in the value of real estate, project completion risk, and changes in market trends. The ability of the construction loan borrower to finance the loan or sell the property upon completion of the project is another risk factor that also may be affected by changes in market trends since the initial funding of the loan.

Commercial Loans. The Company offers a wide range of commercial loans, including business term loans, equipment financing, lines of credit, and U.S. Small Business Administration (SBA) loans. Small-to-medium sized businesses, retail, and professional establishments, make up our target market for commercial loans. Our Relationship Managers primarily underwrite these loans based on the borrower's ability to service the loan from cash flow. Lines of credit and loans secured by accounts receivable and/or inventory are monitored periodically by our staff. Loans secured by "all business assets," or a "blanket lien" are typically only made to highly qualified borrowers due to the nonspecific nature of the collateral and do not require a formal valuation of the business collateral. When commercial loans are secured by specifically identified collateral, then the valuation of the collateral is generally supported by an appraisal, purchase order, or third-party physical inspection. Personal guarantees of the principals of business borrowers are usually required. Equipment loans generally have a term of five years or less and may have a fixed or variable rate; we use conservative margins when pricing these loans. Working capital loans generally do not exceed one year and typically, they are secured by accounts receivable, inventory, and personal guarantees of the principals of the business. The Bank currently offers SBA 504 and SBA 7A loans. SBA 504 loans provide financing for major fixed assets such as real estate and equipment while SBA 7A loans are generally used to establish a new business or assist in the acquisition, operation, or expansion of an existing business. With both SBA loan programs, there are set eligibility requirements and underwriting standards outlined by SBA that can change as the government alters its fiscal policy. Significant factors affecting a commercial borrower's creditworthiness include the quality of management and the ability both to evaluate changes in the supply and demand characteristics affecting the business' markets for products and services and to respond effectively to such changes. These loans may be made unsecured or

secured, but most are made on a secured basis. Risks associated with our commercial loan portfolio include local, regional, and national market conditions. Other factors of risk could include changes in the borrower's management and fluctuations in collateral value. Additionally, there may be refinancing risk if a commercial loan includes a balloon payment which must be refinanced or paid off at loan maturity. In reference to our risk management process, our commercial loan portfolio presents a higher risk profile than our consumer real estate and consumer loan portfolios. Therefore, we require that all loans to businesses must have a clearly stated and reasonable payment plan to allow for timely retirement of debt, unless secured by liquid collateral or as otherwise justified.

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued

Consumer and Other Loans. These loans are made for various consumer purposes, such as the financing of automobiles, boats, and recreational vehicles. The payment structure of these loans is normally on an installment basis. The risk associated with this category of loans stems from the reduced collateral value for a defaulted loan; the collateral may not provide an adequate source of repayment of the principal. The underwriting on these loans is primarily based on the borrower's financial condition. In many cases, these are unsecured credits that subject us to risk when the borrower's financial condition declines or deteriorates. Based upon our current trend in consumer loans, management does not anticipate consumer loans will become a substantial component of our loan portfolio at any time in the foreseeable future. Consumer loans are made at fixed and variable interest rates and are based on the appropriate amortization for the asset and purpose.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed quarterly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Furthermore, construction loans, owner-occupied and nonowner-occupied commercial real estate loans, and commercial loan relationships in excess of \$1 million are reviewed at least annually. The Company determines the appropriate loan grade during the renewal process and reevaluates the loan grade in situations when a loan becomes past due.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the client contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

Pass – A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – A loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not necessarily preclude the potential for recovery, but rather signifies it is no longer practical to defer writing off the asset.

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued

Loan balances classified by credit quality indicator, loan type and based on year of origination are as follows:

(in thousands)

At September 30, 2024	Term Loans by Origination Year						Revolving Loans	Total
	2024	2023	2022	2021	2020	Prior		
Commercial Real Estate Loans								
Pass	\$ 15,985	\$ 28,610	\$ 61,667	\$ 28,179	\$ 34,341	\$ 43,011	\$ 2,816	\$ 214,609
Special mention	-	-	-	-	-	1,715	-	1,715
Substandard	-	-	-	-	-	55	-	55
Total commercial real estate loans	\$ 15,985	\$ 28,610	\$ 61,667	\$ 28,179	\$ 34,341	\$ 44,781	\$ 2,816	\$ 216,379
Year-to-date gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential and Home Equity Loans								
Pass	\$ 23,941	\$ 47,994	\$ 53,929	\$ 63,236	\$ 28,374	\$ 37,924	\$ 38,143	\$ 293,541
Special mention	-	-	354	1,370	325	199	247	2,495
Substandard	-	-	98	571	619	-	563	1,851
Total residential loans	\$ 23,941	\$ 47,994	\$ 54,381	\$ 65,177	\$ 29,318	\$ 38,123	\$ 38,953	\$ 297,887
Year-to-date gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction Loans								
Pass	\$ 28,369	\$ 16,909	\$ 8,588	\$ 17,728	\$ 803	\$ 1,568	\$ 8,077	\$ 82,042
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	178	-	419	-	-	597
Total construction loans	\$ 28,369	\$ 16,909	\$ 8,766	\$ 17,728	\$ 1,222	\$ 1,568	\$ 8,077	\$ 82,639
Year-to-date gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Loans								
Pass	\$ 6,489	\$ 10,961	\$ 10,882	\$ 5,351	\$ 2,621	\$ 6,121	\$ 44,659	\$ 87,084
Special mention	-	-	-	-	-	35	2,665	2,700
Substandard	-	4	-	-	-	-	-	4
Total commercial loans	\$ 6,489	\$ 10,965	\$ 10,882	\$ 5,351	\$ 2,621	\$ 6,156	\$ 47,324	\$ 89,788
Year-to-date gross charge-offs	\$ -	\$ -	\$ 75	\$ 83	\$ -	\$ 607	\$ -	\$ 765
Consumer & Other Loans								
Pass	\$ 1,203	\$ 952	\$ 432	\$ 152	\$ 107	\$ 350	\$ 2,711	\$ 5,907
Special mention	64	-	-	-	-	-	-	64
Substandard	-	-	-	-	-	-	-	-
Total consumer & other loans	\$ 1,267	\$ 952	\$ 432	\$ 152	\$ 107	\$ 350	\$ 2,711	\$ 5,971
Year-to-date gross charge-offs	\$ 62	\$ -	\$ 16	\$ -	\$ -	\$ -	\$ -	\$ 78

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued

(in thousands)

At December 31, 2023	Term Loans by Origination Year						Revolving Loans	Total
	2023	2022	2021	2020	2019	Prior		
Commercial Real Estate Loans								
Pass	\$ 26,574	\$ 59,554	\$ 29,233	\$ 40,719	\$ 12,492	\$ 36,045	\$ 2,045	\$ 206,662
Special mention	-	-	-	-	-	1,767	-	1,767
Substandard	-	-	-	-	-	-	-	-
Total commercial real estate loans	\$ 26,574	\$ 59,554	\$ 29,233	\$ 40,719	\$ 12,492	\$ 37,812	\$ 2,045	\$ 208,429
Year-to-date gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential and Home Equity Loans								
Pass	\$ 43,809	\$ 55,374	\$ 64,522	\$ 31,339	\$ 11,717	\$ 30,253	\$ 33,144	\$ 270,158
Special mention	-	-	1,391	278	-	203	357	2,229
Substandard	-	-	585	367	-	-	44	996
Total residential loans	\$ 43,809	\$ 55,374	\$ 66,498	\$ 31,984	\$ 11,717	\$ 30,456	\$ 33,545	\$ 273,383
Year-to-date gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction Loans								
Pass	\$ 34,896	\$ 17,078	\$ 12,563	\$ 1,425	\$ 1,611	\$ 1,997	\$ 8,045	\$ 77,615
Special mention	-	-	-	-	-	-	-	-
Substandard	-	198	-	384	-	-	-	582
Total construction loans	\$ 34,896	\$ 17,276	\$ 12,563	\$ 1,809	\$ 1,611	\$ 1,997	\$ 8,045	\$ 78,197
Year-to-date gross charge-offs	\$ -	\$ -	\$ -	\$ 386	\$ -	\$ -	\$ -	\$ 386
Commercial Loans								
Pass	\$ 12,024	\$ 12,130	\$ 7,247	\$ 3,543	\$ 4,823	\$ 5,250	\$ 40,064	\$ 85,081
Special mention	24	-	-	45	-	32	-	101
Substandard	-	-	-	36	-	-	765	801
Total commercial loans	\$ 12,048	\$ 12,130	\$ 7,247	\$ 3,624	\$ 4,823	\$ 5,282	\$ 40,829	\$ 85,983
Year-to-date gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 1
Consumer & Other Loans								
Pass	\$ 1,317	\$ 688	\$ 275	\$ 122	\$ 348	\$ 176	\$ 3,010	\$ 5,936
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total consumer & other loans	\$ 1,317	\$ 688	\$ 275	\$ 122	\$ 348	\$ 176	\$ 3,010	\$ 5,936
Year-to-date gross charge-offs	\$ 46	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued

A loan is defined as a past due loan when one full or partial payment is past due or a contractual maturity is over 30 days past due. Age analysis of past due loans is as follows:

	Accruing Loans				Current	Nonaccrual Loans	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due			
<i>(in thousands)</i>							
<i>At September 30, 2024</i>							
Real estate mortgage loans:							
Commercial	\$ 173	\$ -	\$ -	\$ 173	\$ 216,151	\$ 55	\$ 216,379
Residential and home equity	83	648	-	731	295,348	1,808	297,887
Construction	-	-	-	-	82,042	597	82,639
Commercial loans	-	-	-	-	89,784	4	89,788
Consumer and other loans	2	-	-	2	5,969	-	5,971
Total	\$ 258	\$ 648	\$ -	\$ 906	\$ 689,294	\$ 2,464	\$ 692,664
<i>At December 31, 2023</i>							
Real estate mortgage loans:							
Commercial	\$ 57	\$ -	\$ -	\$ 57	\$ 208,372	\$ -	\$ 208,429
Residential and home equity	3,792	492	1,110	5,394	267,036	953	273,383
Construction	648	-	-	648	76,967	582	78,197
Commercial loans	18	318	-	336	84,847	800	85,983
Consumer and other loans	28	-	-	28	5,908	-	5,936
Total	\$ 4,543	\$ 810	\$ 1,110	\$ 6,463	\$ 643,130	\$ 2,335	\$ 651,928

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued

Loans are generally placed on nonaccrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured. The following tables present the amortized cost basis of loans in nonaccrual status and loans past due over 90 days and still on accrual by class of loans and the related ACL, if any. The amount of ACL attributed to the \$179,000 residential and home equity loan balance on nonaccrual at September 30, 2024 was \$37,000. The amount of ACL attributed to the \$764,000 commercial loan balance on nonaccrual at December 31, 2023 was \$556,000.

<i>(in thousands)</i>	<u>Total Nonaccrual Loans</u>	<u>Nonaccrual Loans with No ACL</u>	<u>Nonaccrual Loans with ACL</u>	<u>90+ Days Still Accruing</u>
<i>At September 30, 2024</i>				
Commercial real estate	\$ 55	\$ 55	\$ -	\$ -
Residential and home equity	1,808	1,629	179	-
Construction	597	597	-	-
Commercial	4	4	-	-
Total	<u>\$ 2,464</u>	<u>\$ 2,285</u>	<u>\$ 179</u>	<u>\$ -</u>
<i>At December 31, 2023</i>				
Residential and home equity	\$ 953	\$ 953	\$ -	\$ 1,110
Construction	582	582	-	-
Commercial	800	36	764	-
Total	<u>\$ 2,335</u>	<u>\$ 1,571</u>	<u>\$ 764</u>	<u>\$ 1,110</u>

The restructuring of a loan exists if the creditor grants a modification as a result of financial hardship. A loan modification may include an extension of repayment terms which would not normally be granted, a reduction in interest rate or the forgiveness of principal and/or accrued interest. The Company entered into no new restructured loans during the three and nine months ended September 30, 2024 and 2023.

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(4) Allowance for Credit Losses

Activity in the ACL is summarized as follows:

<i>(in thousands)</i>	Loans							Unfunded Commitments	Total
	Real Estate Mortgage Loans			Commercial Loans	Consumer and Other Loans	Total Funded Loans			
	Commercial	Residential and Home Equity	Construction						
Three Month Period Ended September 30, 2024									
Beginning balance	\$ 1,576	\$ 2,286	\$ 621	\$ 782	\$ 17	\$ 5,282	\$ 158	\$ 5,440	
Credit loss expense (income)	55	107	(52)	(7)	15	118	(18)	100	
Charge-offs	-	-	-	-	(13)	(13)	-	(13)	
Recoveries	-	-	-	-	2	2	-	2	
Ending balance	<u>\$ 1,631</u>	<u>\$ 2,393</u>	<u>\$ 569</u>	<u>\$ 775</u>	<u>\$ 21</u>	<u>\$ 5,389</u>	<u>\$ 140</u>	<u>\$ 5,529</u>	
Three Month Period Ended September 30, 2023									
Beginning balance	\$ 1,586	\$ 1,811	\$ 544	\$ 771	\$ 17	\$ 4,729	\$ 48	\$ 4,777	
Credit loss expense (income)	75	121	(31)	41	13	219	(44)	175	
Charge-offs	-	-	(40)	-	(15)	(55)	-	(55)	
Recoveries	-	-	-	5	1	6	-	6	
Ending balance	<u>\$ 1,661</u>	<u>\$ 1,932</u>	<u>\$ 473</u>	<u>\$ 817</u>	<u>\$ 16</u>	<u>\$ 4,899</u>	<u>\$ 4</u>	<u>\$ 4,903</u>	
Nine Month Period Ended September 30, 2024									
Beginning balance	\$ 1,713	\$ 2,034	\$ 559	\$ 1,272	\$ 31	\$ 5,609	\$ -	\$ 5,609	
Credit loss (income) expense	(82)	359	10	267	61	615	140	755	
Charge-offs	-	-	-	(765)	(78)	(843)	-	(843)	
Recoveries	-	-	-	1	7	8	-	8	
Ending balance	<u>\$ 1,631</u>	<u>\$ 2,393</u>	<u>\$ 569</u>	<u>\$ 775</u>	<u>\$ 21</u>	<u>\$ 5,389</u>	<u>\$ 140</u>	<u>\$ 5,529</u>	
Nine Month Period Ended September 30, 2023									
Beginning balance	\$ 2,303	\$ 2,607	\$ 922	\$ 1,223	\$ 90	\$ 7,145	\$ -	\$ 7,145	
Impact of adopting ASC 326	(740)	(892)	(403)	(504)	(67)	(2,606)	-	(2,606)	
Credit loss expense	98	217	340	60	24	739	4	743	
Charge-offs	-	-	(386)	-	(37)	(423)	-	(423)	
Recoveries	-	-	-	38	6	44	-	44	
Ending balance	<u>\$ 1,661</u>	<u>\$ 1,932</u>	<u>\$ 473</u>	<u>\$ 817</u>	<u>\$ 16</u>	<u>\$ 4,899</u>	<u>\$ 4</u>	<u>\$ 4,903</u>	

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(5) Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the banking agencies. 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 and the Bank'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 the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank is subject to the Basel III capital level threshold requirements under the Prompt Corrective Action regulations. These regulations were designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses.

The Bank is subject to the capital conservation buffer rules which place limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, a bank must hold a capital conservation buffer above its minimum risk-based capital requirements. As of September 30, 2024, the Bank's capital conservation buffer exceeded the minimum requirement.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and percentages (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of September 30, 2024, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2024, the Bank is well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage percentages as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and percentages are also presented in the following table.

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<i>(dollars in thousands)</i>						
As of September 30, 2024						
Tier 1 Leverage Capital	\$ 93,581	10.21%	36,670	4.00%	45,837	5.00%
Common Equity Tier 1 Risk-based Capital	93,581	13.53	31,113	4.50	44,942	6.50
Tier 1 Risk-based Capital	93,581	13.53	41,485	6.00	55,313	8.00
Total Risk-based Capital	99,110	14.33	55,313	8.00	69,141	10.00
As of December 31, 2023						
Tier 1 Leverage Capital	\$ 86,576	10.15%	\$ 34,133	4.00%	\$ 42,666	5.00%
Common Equity Tier 1 Risk-based Capital	86,576	13.18	29,566	4.50	42,706	6.50
Tier 1 Risk-based Capital	86,576	13.18	39,421	6.00	52,561	8.00
Total Risk-based Capital	92,185	14.03	52,561	8.00	65,702	10.00

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(6) Earnings Per Share

Earnings per share, ("EPS") have been computed on the basis of the weighted-average number of shares of common stock outstanding. For the three and nine months ended September 30, 2024 and 2023, outstanding stock options are considered dilutive securities for purposes of calculating diluted EPS which was computed using the treasury stock method.

	2024			2023		
	Earnings	Weighted-Average Shares	Per Share Amount	Earnings	Weighted-Average Shares	Per Share Amount
<i>(dollars in thousands, except per share amounts)</i>						
Three Months Ending September 30:						
Basic EPS:						
Net earnings	\$ 2,603	3,293,993	\$ 0.79	\$ 2,120	3,214,323	\$ 0.66
Effect of dilutive securities-incremental shares from assumed conversion of stock options		28,543			21,597	
Diluted EPS:						
Net earnings	\$ 2,603	3,322,536	\$ 0.78	\$ 2,120	3,235,920	\$ 0.66
Nine Months Ending September 30:						
Basic EPS:						
Net earnings	\$ 6,308	3,288,322	\$ 1.92	\$ 6,878	3,193,302	\$ 2.15
Effect of dilutive securities-incremental shares from assumed conversion of stock options		42,541			28,650	
Diluted EPS:						
Net earnings	\$ 6,308	3,330,863	\$ 1.89	\$ 6,878	3,221,952	\$ 2.13

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) Stock Benefit Plans

2015 Stock Incentive Compensation Plan

The 2015 Stock Incentive Compensation Plan (the “2015 Plan”) permits the Company to grant the Company’s key employees and directors stock options, restricted stock, stock appreciation rights, performance shares, and phantom stock. Under the 2015 Plan, the number of shares which may be issued is 500,000 and limited to no more than 15% of the issued and outstanding shares of the Company’s common stock at that time. This is determined annually.

As of September 30, 2024, 153,629 shares are available to be issued under the 2015 Stock Plan as restricted stock, underlying options, or otherwise. A summary of the stock option activity for the nine months ended September 30, 2024 and 2023 is as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2022	251,367	\$ 19.99		
Options exercised	(18,617)	(20.09)		
Options forfeited	(50)	(20.09)		
Outstanding at September 30, 2023	232,700	\$ 20.68		
Options exercised	(600)	(20.09)		
Options forfeited	(10,000)	(28.40)		
Outstanding at December 31, 2023	222,100	\$ 20.33		
Options exercised	(23,940)	(20.09)		
Options forfeited	(25,180)	(20.10)		
Outstanding at September 30, 2024	172,980	\$ 20.40	2.2	\$ 882,000
Exercisable at September 30, 2024	168,480	\$ 20.23	2.2	\$ 889,000

The fair value of shares vested and recognized as compensation expense was \$110,000 and \$339,000 for the three and nine months ended September 30, 2024, respectively, and \$78,000 and \$210,000 for the three and nine months ended September 30, 2023 respectively. These amounts include expense recognized on restricted common stock shares of \$106,000 and \$327,000 for the three and nine months ended September 30, 2024, and \$66,000 and \$142,000 for the three and nine months ended September 30, 2023, respectively. The deferred tax benefit related to stock options was zero for the three and nine months ended September 30, 2024 and \$1,000 and \$6,000 for the three and nine months ended September 30, 2023, respectively. At September 30, 2024, there was \$33,000 in unrecognized compensation expense related to unvested stock options granted under the 2015 Plan, with an average remaining vesting period of 2.5 years.

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) Stock Benefit Plans, Continued

Restricted Stock

During the nine months ended September 30, 2024 and 2023, the Company issued 10,040 and 75,751 restricted common stock shares, respectively, to some of its executives and employees. The restricted stock awards are on a three to five year vesting schedule. Holders of restricted stock have the right to vote and the right to receive dividends declared on common stock, if any. A summary of restricted stock transactions follows:

	<u>Number of Shares</u>	<u>Wtd-Avg Grant-Date Fair Value per Share</u>	<u>Grant-Date Fair Value</u>
Non-vested restricted stock outstanding at December 31, 2022	14,203	\$ 25.30	\$ 359,000
Non-vested restricted stock granted	75,751	\$ 22.68	1,718,000
Restricted stock shares vested	(6,040)	(24.06)	(145,000)
Non-vested restricted stock outstanding at September 30, 2023	83,914	\$ 23.02	\$ 1,932,000
Forfeited	(6,278)	(23.42)	(147,000)
Non-vested restricted stock outstanding at December 31, 2023	77,636	\$ 22.99	\$ 1,785,000
Non-vested restricted stock granted	10,040	\$ 23.23	\$ 233,000
Restricted stock shares vested	(17,984)	(23.26)	(418,000)
Forfeited	(4,550)	(22.74)	(103,000)
Non-vested restricted stock outstanding at September 30, 2024	65,142	\$ 23.05	\$ 1,497,000

Expense recognized during the three months ended September 30, 2024 and 2023 totaled \$106,000 and \$66,000, respectively. Expense recognized during the nine months ended September 30, 2024 and 2023 totaled \$327,000 and \$142,000, respectively. At September 30, 2024, the Company had \$1,369,000 in unrecognized expense related to unvested restricted shares to be recognized over a weighted-average period of 3.9 years.

Director s' Plan

In 2012, the Company's Board of Directors and shareholders adopted the Directors' Plan. The Directors' Plan permits the Company's and the Bank's non-employee directors to elect to receive any compensation to be paid to them in shares of the Company's common stock. Pursuant to the Directors' Plan, each non-employee director is permitted to make an election to receive shares of stock instead of cash. To encourage directors to elect to receive stock, the Directors' Plan provides that if a director elects to receive stock, he or she will receive in common stock 110% of the amount of cash fees set by the Board or the Compensation Committee. The value of stock to be awarded pursuant to the Directors' Plan will be the closing price of a share of common stock as traded on the Over-the-Counter Bulletin Board, or a price set by the Board or its Compensation Committee, acting in good faith, but in no case less than fair market value. The maximum number of shares to be issued pursuant to the Directors' Plan is limited to 74,805 shares. For the three months ended September 30, 2024 and 2023 our directors received 992 and 1,764 shares of common stock, respectively, in lieu of cash fees calculated at 110% to be \$25,000 and \$40,000, respectively. For the nine months ended September 30, 2024 and 2023, our directors received 4,444 and 4,874 shares of common stock, respectively, in lieu of cash fees calculated at 110% to be \$110,000 and \$120,000, respectively. At September 30, 2024, 25,218 shares remained available for grant.

(8) Other Borrowings

In 2020, the Company entered into a Promissory Note (the "Note") and a Security Agreement with Thomasville National Bank ("TNB"). Pursuant to the Note, the Company obtained a \$15 million revolving line of credit with a 5-year term. The interest rate on the line of credit adjusts daily to the then-current Wall Street Journal Prime Rate. At September 30, 2024, the interest rate was 8.00%. Pursuant to the Security Agreement, the Company has pledged to TNB all of the outstanding shares of common stock of the Company's wholly-owned subsidiary, the Bank. At September 30, 2024 and December 31, 2023, the Company had a zero outstanding loan balance under this line of credit.

(9) Federal Home Loan Bank Advances

Federal Home Loan Bank of Atlanta (“FHLB”) advances are collateralized by a blanket lien on qualifying residential real estate, commercial real estate, home equity lines of credit and multi-family loans. Under this blanket lien, the Company could borrow up to \$123.8 million at September 30, 2024. The following table details rate and maturity information for FHLB advances:

(dollars in thousands)

Maturity Year	Interest Rate	At September 30, 2024	At December 31, 2023
2024	4.48% - 4.83%	\$ 5,000	\$ 10,000
2025	4.18%	5,000	5,000
		<u>\$ 10,000</u>	<u>\$ 15,000</u>

(10) Derivative Financial Instruments

The Company has entered into interest rate swaps in order to provide commercial real estate loan clients the ability to swap from variable to fixed interest rates. Under these agreements, the Company enters into a variable rate loan with a client at a specified index (Wall Street Journal Prime Lending Rate) in addition to a borrower swap agreement. This swap agreement effectively converts the client’s variable rate loan into a fixed rate. The Company then enters into a matching swap agreement with a third-party dealer counterparty in order to offset its exposure on the borrower swap. These interest rate swaps are considered derivative financial instruments. These derivative instruments involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivatives are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any, over the life of the contract. Such differences, which represent the fair value of the derivative instruments, are included in “other assets” and “other liabilities” on the Company’s condensed consolidated balance sheets, and the net change in each of these financial statement line items in the accompanying condensed consolidated statements of cash flows. The derivative transactions are considered instruments with no hedging designation, otherwise known as stand-alone derivatives.

	At September 30, 2024	At December 31, 2023
<i>(dollars in thousands)</i>		
Notional amount - interest rate swaps:		
Stand-alone derivatives	\$ 10,900	\$ 19,548
Weighted-average pay rate - interest rate swaps	3.63%	3.68%
Weighted-average receive rate - interest rate swaps	3.00%	3.00%
Weighted-average maturity (in years) - interest rate swaps	10.8	11.6
Net realized fair value adjustments:		
Stand-alone derivatives - interest rate swaps (other assets)	\$ 1,291	\$ 2,253
Stand-alone derivatives - interest rate swaps (other liabilities)	\$ (1,291)	\$ (2,253)

The Company is party to a collateral support agreement with its dealer counterparty. Such agreement requires that the Company or the dealer counterparty to maintain collateral based on the fair values of derivative instruments. In the event of default by a counterparty the non-defaulting counterparty would be entitled to the collateral. The Company does not require borrower counterparties to post cash collateral based on the fair values of borrower interest rate swaps. In the event of default of a borrower counterparty wherein the fair value of the derivative instrument is owed to the Company, the fair value is collected through a real property foreclosure or liquidation.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(11) Fair Value of Financial Instruments

The estimated fair values and fair value measurement method with respect to the Company's financial instruments were as follows:

<i>(in thousands)</i>	Level	At September 30, 2024		At December 31, 2023	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	1	\$ 96,524	\$ 96,524	28,416	28,416
Debt securities available for sale	2	90,935	90,935	124,475	124,475
Debt securities held to maturity	2	13,276	12,311	11,850	10,358
Loans held for sale	3	7,457	7,577	5,288	5,371
Loans, net	3	687,057	617,091	646,127	557,847
Federal Home Loan Bank stock	3	1,073	1,073	1,283	1,283
Accrued interest receivable	3	3,213	3,213	3,114	3,114
Bank-owned life insurance	3	17,228	17,228	16,921	16,921
Derivative contract assets	2	1,291	1,291	2,253	2,253
Financial liabilities:					
Deposits	3	823,986	825,169	748,688	749,411
FHLB Advances	3	10,000	9,952	15,000	14,848
Derivative contract liabilities	2	1,291	1,291	2,253	2,253
Off-Balance Sheet Items	3	-	-	-	-

Discussion regarding the assumptions used to compute the estimated fair values of financial instruments can be found in Note 1 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2023.

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(12) Off-Balance Sheet Financial Instruments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments are commitments to extend credit, construction loans in process, unused lines of credit, standby letters of credit, and guaranteed accounts and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the condensed consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for available lines of credit, construction loans in process and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend credit, construction loans in process and unused lines of credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are written conditional commitments issued by the Company to guarantee the financial obligation or performance of a client to a third party. These letters of credit are primarily issued to support third-party borrowing arrangements and generally have expiration dates within one year of issuance. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to clients. In the event the client does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the client. Some of the Company's standby letters of credit are secured by collateral and those secured letters of credit totaled \$632,000 at September 30, 2024.

Guaranteed accounts are irrevocable standby letters of credit issued by us to guarantee a client's credit line with our third-party credit card company, Card Assets and its issuing bank, First Arkansas Bank & Trust. As a part of this agreement, we are responsible for the established credit limit on certain accounts plus 10%. The maximum potential amount of future payments we could be required to make is represented by the dollar amount disclosed in the table below.

Standby letters of credit and commitments to extend credit typically result in loans with a market interest rate when funded.

At September 30, 2024, there was \$140,000 included in the ACL for general unfunded loan commitments. There was none at December 31, 2023.

The maximum potential amount of future payments we could be required to make for off-balance sheet financial instruments is represented by the dollar amount disclosed in the table below.

	<i>At September 30, 2024</i>
<i>(in thousands)</i>	
Commitments to extend credit	\$ 3,275
Construction loans in process	\$ 24,389
Unused lines of credit	\$ 76,871
Standby financial letters of credit	\$ 2,501
Standby performance letters of credit	\$ 89
Guaranteed accounts	\$ 1,276

(continued)

PRIME MERIDIAN HOLDING COMPANY AND SUBSIDIARY

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

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of Prime Meridian Holding Company, and its wholly-owned subsidiary, Prime Meridian Bank. This discussion and analysis should be read with the condensed consolidated financial statements, the footnotes thereto, and the other financial data included in this report and in our annual report on Form 10-K for the year ended December 31, 2023. Results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of results that may be attained for any other period. The following discussion and analysis present our financial condition and results of operations on a consolidated basis, however, because we conduct all of our material business operations through the Bank, the discussion and analysis relate to activities primarily conducted at the subsidiary level.

Certain information in this report may include "forward-looking statements" as defined by federal securities law. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "project," "is confident that," and similar expressions are intended to identify these forward-looking statements. These forward-looking statements involve risk and uncertainty and a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in these forward-looking statements. We do not have a policy of updating or revising forward-looking statements except as otherwise required by law, and silence by management over time should not be construed to mean that actual events are occurring as estimated in such forward-looking statements.

Our ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on our and our subsidiary's operations include, but are not limited to, changes in:

- local, regional, and national economic and business conditions;
- banking laws, compliance, and the regulatory environment;
- U.S. and global securities markets, public debt markets, and other capital markets;
- monetary and fiscal policies of the U.S. Government;
- litigation, tax, and other regulatory matters;
- demand for banking services, both loan and deposit products in our market area;
- quality and composition of our loan or investment portfolios;
- risks inherent in making loans such as repayment risk and fluctuating collateral values;
- competition;
- attraction and retention of key personnel, including our management team and directors;
- technology, product delivery channels, and end user demands and acceptance of new products;
- consumer spending, borrowing and savings habits;
- any failure or breach of our operational systems, information systems or infrastructure, or those of our third-party vendors and other service providers; including cyber-attacks;
- natural disasters, public unrest, adverse weather, pandemics, public health, and other conditions impacting our or our clients' operations;
- other economic, competitive, governmental, regulatory, or technological factors affecting us; and
- application and interpretation of accounting principles and guidelines.

GENERAL

Prime Meridian Holding Company (“PMHG”) was incorporated as a Florida corporation on May 25, 2010, and is the one-bank holding company for, and sole shareholder of, Prime Meridian Bank (the “Bank”) (collectively, the “Company”). The Bank opened for business on February 4, 2008 and was acquired by PMHG on September 16, 2010. PMHG has no significant operations other than owning the stock of the Bank. The Bank offers a broad array of commercial and retail banking services through four full-service offices located in Tallahassee, Crawfordville, and Lakeland, Florida and through its online banking platform.

As a one-bank holding company, we generate most of our revenue from interest on loans and investments. Our primary source of funding for our loans is deposits. Our largest expenses are interest on those deposits and salaries and employee benefits. We measure our performance through our net interest margin, return on average assets, and return on average equity, while maintaining appropriate regulatory leverage and risk-based capital ratios.

The following table shows selected information for the periods ended or at the dates indicated:

	At or for the		
	Nine Months Ended September 30, 2024	Year Ended December 31, 2023	Nine Months Ended September 30, 2023
Average equity as a percentage of average assets	9.37%	8.96%	8.93%
Equity to total assets at end of period	9.50	9.36	8.99
Return on average assets ⁽¹⁾	0.96	1.07	1.12
Return on average equity ⁽¹⁾	10.20	11.91	12.57
Noninterest expense to average assets ⁽¹⁾	2.26	2.25	2.24
Nonperforming loans to total loans at end of period	0.36	0.53	0.23
Nonperforming assets to total assets at end of period	0.26	0.40	0.19

(1) Annualized for the nine months ended September 30, 2024 and 2023.

CRITICAL ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in accordance with GAAP and reporting practices applicable to the Banking industry requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from these estimates and result in material changes in our consolidated financial position and consolidated results of operations and related disclosures. Understanding our accounting policies is fundamental to understanding our consolidated financial position and consolidated results of operations. Accordingly, our significant accounting policies and changes in accounting principles and effects of new accounting pronouncements are discussed in Note 1 in this Quarterly Report on Form 10-Q and in Note 1 of our Annual Report on Form 10-K for the year ended December 31, 2023. As discussed in Note 1 of this Form 10-Q, our policy related to the allowance for credit losses "ACL" changed on January 1, 2023 in connection with adoption of ASC 326. The amount of the ACL represents management's best estimates of current expected credit losses considering available information relevant to assessing exposure to credit loss over the contractual term of the instrument. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts of the collectability of the loan portfolio. The CECL model differs from the incurred loss model previously required in that the measurement of potential loss is required to be the life of the loan and is largely based on historical loss experience by loan type. Adjustments to historical loss information may be made based on an assessment of internal and external influences on credit quality not fully reflected in the quantitative components of the allowance model. These influences may include macroeconomic conditions, recent observable asset quality trends, regional market conditions, employment levels, and loan growth. Based upon management's assessment of these factors, the Company may apply qualitative adjustments to the allowance. While management utilizes its best judgment and information available, the adequacy of our allowance accounts is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets.

FINANCIAL CONDITION

Average interest-earning assets totaled \$840.2 million and \$780.3 million for the nine months ended September 30, 2024 and 2023, respectively, representing a period over period increase of \$59.9 million, or 7.7%. The increase in interest-earning assets was due primarily to a \$68.1 million increase in the average balance of loans, partially offset by a \$19.3 million decrease in the average balance of debt securities.

Investment Securities - Our primary objective in managing our investment portfolio is to maintain a portfolio of high quality, highly liquid investments yielding competitive returns. We use the investment securities portfolio for several purposes. It serves as a vehicle to manage interest rate and prepayment risk, to generate interest income, to provide liquidity to meet funding requirements, and to provide collateral for pledging to secure the deposit of public funds at the Bank. At September 30, 2024, our debt securities available for sale and held to maturity investment portfolios included highly rated U.S. government treasury and agency securities, U.S. agency mortgage-backed securities, asset-backed securities, and municipal securities. As of the same date, the combined portfolio had a fair market value of \$103.2 million and an amortized cost value of \$111.9 million. At September 30, 2024 and December 31, 2023, our investment securities portfolio represented approximately 11.2% and 16.0% of our total assets, respectively. The average yield on the average balance of investment securities for the nine months ended September 30, 2024 was 2.77%, compared to 2.65% for the comparable period in 2023.

Loans. Our primary interest-earning asset is our loan portfolio and our primary source of income is the interest earned on the loan portfolio. Our loan portfolio consists of commercial real estate loans, construction loans, and commercial loans made to small-to-medium sized companies and their owners, as well as residential real estate and home equity loans, including multifamily loans, first and second mortgages, and consumer and other loans. Our goal is to maintain a

high-quality portfolio of loans through sound underwriting and lending practices. We work diligently to attract new lending clients through direct solicitation by our loan officers, utilizing relationship networks from existing clients, competitive pricing, and innovative structure. Our loans are priced based upon the degree of risk, collateral, loan amount, and maturity. At September 30, 2024, our net loan portfolio totaled \$687.1 million compared to \$646.1 million at December 31, 2023.

Commercial real estate ("CRE") loans represent the Company's second largest loan category. Commercial real estate loans generally carry larger loan balances and can involve a greater degree of financial and credit risk than other loans. The Company regularly monitors its CRE portfolio against regulatory concentration thresholds. Additionally, the Company manages its risk in the CRE portfolio through, but not limited to, established policy limits on loan-to-value or loan-to-cost, the use of internal lending limits, annual reviews on borrowers and guarantors above certain total credit exposure thresholds, and minimum required debt service coverage ratios and borrower equity levels.

A summary of the Company's CRE portfolio at September 30, 2024 by collateral type is as follows:

(dollars in thousands)

At September 30, 2024

Owner Occupied CRE	Amount	% of Total	Average Loan Size
Office	\$ 32,928	31.3%	\$ 383
Retail	36,271	34.5	844
Warehouse	17,699	16.8	656
Restaurant	7,009	6.7	779
Other	11,257	10.7	938
Total	\$ 105,164	100.0%	\$ 594

Non-Owner Occupied CRE

Office	\$ 16,967	15.3%	\$ 547
Retail	51,646	46.4	1,099
Warehouse	12,403	11.1	564
Restaurant	1,752	1.6	438
Hotel	20,546	18.5	3,424
Other	7,901	7.1	2,634
Total	\$ 111,215	100.0%	\$ 984

Nonperforming assets. Nonperforming loans totaled \$2.5 million at September 30, 2024, compared to \$3.4 million at December 31, 2023. We generally place loans on nonaccrual status when they become 90 days or more past due, unless they are well secured and in the process of collection. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. When a loan is placed on nonaccrual status, any interest previously accrued, but not collected, is reversed from income.

Allowance for Credit Losses. The allowance for credit losses ("ACL") consists of the allowance for credit losses on loans, debt securities, and unfunded commitments. Management's policy is to maintain the ACL at a level sufficient to absorb expected credit losses in the loan, debt securities portfolio, and unfunded loan commitments as of the balance sheet date. The allowance is increased by credit loss expense and decreased by charge-offs, net of recoveries. The Bank reported credit loss expense of \$100,000 and \$755,000 for the three and nine months ended September 30, 2024, compared to \$175,000 and \$743,000 for the same periods in 2023. Credit loss expense in the third quarter of 2024 was comprised of \$118,000 in loan related credit loss expense and an \$18,000 release related to general unfunded commitments. The ratio of nonperforming assets to total assets was 0.26% at September 30, 2024 compared to 0.40% at December 31, 2023. The decrease in nonperforming assets from year-end is mostly attributed to net charge-offs of \$800,000 during the second quarter of 2024, primarily related to two (2) previously identified impaired commercial loan relationships. At September 30, 2024, management believes the ACL, which was \$5.4 million, or 0.78% of gross loans, is adequate to cover expected credit losses in the loan portfolio.

Deposits. Deposits are the major source of the Company's funds for lending and other investment purposes. Total deposits at September 30, 2024 were \$824.0 million, an increase of \$75.3 million, or 10.1%, from December 31, 2023. Average deposit balances for the three and nine months periods ending September 30, 2024 were up \$93.0 million, or 13.0%, and \$56.3 million, or 7.9%, respectively, from the same periods a year ago. The average balance of noninterest-bearing deposits accounted for 25.5% of the average balance of total deposits for the nine months ended September 30, 2024, compared to 27.4% for the nine months ended September 30, 2023. The Bank's core deposit base is well diversified with a fairly balanced volume distribution between commercial (47%) and consumer (46%) deposit accounts at September 30, 2024. Public accounts make up the remaining 7%. The Bank's estimated uninsured deposits were \$316.3 million, or 38.4% of total deposits, including collateralized public fund accounts.

Borrowings. The Bank has an agreement with FHLB and pledges its qualified loans as collateral which would allow the Bank, as of September 30, 2024, to borrow up to \$123.8 million. At September 30, 2024, the Bank had \$10 million in FHLB advances. In addition, the Bank maintains unsecured lines of credit with correspondent banks that totaled \$59.0 million at September 30, 2024. There were no outstanding balances under these unsecured lines of credit at September 30, 2024.

In 2020, the Company entered into a Promissory Note and a Security Agreement with TNB. Pursuant to the Note, the Company obtained a \$15 million revolving line of credit with a 5-year term. The interest rate adjusts daily to the then-current Wall Street Journal Prime Rate. Pursuant to the Security Agreement, the Company has pledged to TNB all of the outstanding shares of common stock of the Bank. At September 30, 2024, the Company had a zero balance under this line.

RESULTS OF OPERATIONS

Net interest income constitutes the principal source of income for the Bank and results from the excess of interest income on interest-earning assets over interest expense on interest-bearing liabilities. The principal interest-earning assets are investment securities and loans. Interest-bearing liabilities primarily consist of time deposits, interest-bearing checking accounts, savings deposits, and money-market accounts. Funds attracted by these interest-bearing liabilities are invested in interest-earning assets. Accordingly, net interest income depends upon the volume of average interest-earning assets and average interest-bearing liabilities as well as the interest rates earned or paid on these assets and liabilities. The following tables set forth information regarding: (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) weighted-average yields and rates. Yields and costs were derived by dividing annualized income or expense by the average balance of assets or liabilities. The yields and costs depicted in the table include the amortization of fees, which are considered to constitute adjustments to yields.

As shown in the following tables, for the three and nine months ended September 30, 2024, the Company's net interest margin ("NIM") declined compared to the same periods last year due to a narrowing of the interest rate spread, higher cost of funds, and lower percentage of noninterest bearing deposits as a part of the deposit mix.

	For the Three Months Ended September 30,					
	2024			2023		
	Average Balance	Interest and Dividends	Yield/Rate(5)	Average Balance	Interest and Dividends	Yield/Rate(5)
<i>(dollars in thousands)</i>						
Interest-earning assets:						
Loans(1)	\$ 694,083	\$ 10,893	6.28%	\$ 620,297	\$ 8,939	5.76%
Loans held for sale	6,371	102	6.40	5,850	80	5.47
Debt securities	105,999	757	2.86	137,731	919	2.67
Other(2)	67,629	942	5.57	17,398	244	5.61
Total interest-earning assets	874,082	\$ 12,694	5.81%	781,276	\$ 10,182	5.21%
Noninterest-earning assets	38,751			42,065		
Total assets	\$ 912,833			\$ 823,341		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	\$ 492,632	\$ 3,374	2.74%	\$ 449,396	\$ 2,089	1.86%
Time deposits	111,851	1,269	4.54	73,071	602	3.30
Total interest-bearing deposits	604,483	4,643	3.07	522,467	2,691	2.06
Other borrowings and FHLB advances	10,000	110	4.40	24,582	304	4.95
Total interest-bearing liabilities	614,483	\$ 4,753	3.09%	547,049	\$ 2,995	2.19%
Noninterest-bearing deposits	203,659			192,686		
Noninterest-bearing liabilities	9,317			8,644		
Stockholders' equity	85,374			74,962		
Total liabilities and stockholders' equity	\$ 912,833			\$ 823,341		
Net earning assets	\$ 259,599			\$ 234,227		
Net interest income		\$ 7,941			\$ 7,187	
Interest rate spread (3)			2.72%			3.02%
Net interest margin(4)			3.63%			3.68%
Ratio of interest-earning assets to average interest-bearing liabilities	142.25%			142.82%		

(1) Includes nonaccrual loans

(2) Other interest-earning assets includes federal funds sold, interest-bearing deposits and FHLB stock.

(3) Interest rate spread is the difference between the total interest-earning asset yield and the rate paid on total interest-bearing liabilities.

(4) Net interest margin is net interest income divided by total average interest-earning assets, annualized on a 30/360 basis.

(5) Annualized on a 30/360 basis

For the Nine Months Ended September 30,

	2024			2023		
	Average Balance	Interest and Dividends	Yield/ Rate(5)	Average Balance	Interest and Dividends	Yield/ Rate(5)
<i>(dollars in thousands)</i>						
Interest-earning assets:						
Loans(1)	\$ 679,999	\$ 31,320	6.14%	\$ 611,946	\$ 25,361	5.53%
Loans held for sale	5,642	264	6.24	7,215	272	5.03
Debt securities	120,633	2,505	2.77	139,886	2,777	2.65
Other(2)	33,952	1,408	5.53	21,271	650	4.07
Total interest-earning assets	840,226	\$ 35,497	5.63%	780,318	\$ 29,060	4.97%
Noninterest-earning assets	39,600			36,898		
Total assets	<u>\$ 879,826</u>			<u>\$ 817,216</u>		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	\$ 475,043	\$ 9,234	2.59%	\$ 461,649	\$ 5,061	1.46%
Time deposits	98,803	3,176	4.29	56,901	1,080	2.53
Total interest-bearing deposits	573,846	12,410	2.88	518,550	6,141	1.58
Other borrowings	17,220	619	4.79	20,034	824	5.48
Total interest-bearing liabilities	591,066	<u>\$ 13,029</u>	2.94%	538,584	<u>\$ 6,965</u>	1.72%
Noninterest-bearing deposits	196,703			195,689		
Noninterest-bearing liabilities	9,607			10,005		
Stockholders' equity	82,450			72,938		
Total liabilities and stockholders' equity	<u>\$ 879,826</u>			<u>\$ 817,216</u>		
Net earning assets	<u>\$ 249,160</u>			<u>\$ 241,734</u>		
Net interest income		<u>\$ 22,468</u>			<u>\$ 22,095</u>	
Interest rate spread (3)			2.69%			3.25%
Net interest margin(4)			3.57%			3.78%
Ratio of interest-earning assets to average interest-bearing liabilities	<u>142.15%</u>			<u>144.88%</u>		

(1) Includes nonaccrual loans

(2) Other interest-earning assets includes federal funds sold, interest-bearing deposits and FHLB stock.

(3) Interest rate spread is the difference between the total interest-earning asset yield and the rate paid on total interest-bearing liabilities.

(4) Net interest margin is net interest income divided by total average interest-earning assets, annualized on a 30/360 basis.

(5) Annualized on a 30/360 basis.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

Earnings Summary

(dollars in thousands)

	3Q'24	3Q'23	Change 3Q'24 vs. 3Q'23	
			Amount	Percentage
Net Interest Income	\$ 7,941	\$ 7,187	\$ 754	10.5%
Credit loss expense	100	175	(75)	(42.9)
Noninterest income	531	499	32	6.4
Noninterest expense	4,934	4,723	211	4.5
Income Taxes	835	668	167	25.0
Net earnings	<u>\$ 2,603</u>	<u>\$ 2,120</u>	<u>\$ 483</u>	<u>22.8%</u>

Net earnings for the third quarter of 2024 primarily benefitted from higher net interest income, improved operating efficiency and lower credit loss expense.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest and dividend income on interest-earning assets such as loans and debt securities, and interest expense on interest-bearing liabilities such as deposits, other borrowings, and FHLB advances.

Interest income

(dollars in thousands)

	3Q'24	3Q'23	Change 3Q'24 vs. 3Q'23	
			Amount	Percentage
Interest income:				
Loans	\$ 10,995	\$ 9,019	\$ 1,976	21.9%
Debt securities	757	919	(162)	(17.6)
Other	942	244	698	286.1
Total interest income	<u>12,694</u>	<u>10,182</u>	<u>2,512</u>	<u>24.7%</u>
Interest expense:				
Deposits	4,643	2,691	1,952	72.5%
Other borrowings and FHLB advances	110	304	(194)	(63.8)
Total interest expense	<u>4,753</u>	<u>2,995</u>	<u>1,758</u>	<u>58.7</u>
Net interest income	<u>\$ 7,941</u>	<u>\$ 7,187</u>	<u>\$ 754</u>	<u>10.5%</u>

The Company reported net interest income of \$7.9 million for 3Q'24, an increase of \$754,000, or 10.5% from 3Q'23. Compared to 3Q'23, loan growth and higher loan yields were the most significant contributing factors to higher net interest income. Average earning assets were up \$92.8 million, or 11.9%, over 3Q'23 while the yield on average earning assets increased to 5.81% (3Q'24), compared to 5.21% (3Q'23). The average cost of interest-bearing liabilities increased from 2.19% in 3Q'23 to 3.09% in 3Q'24, reflecting the rising rate environment and a change in funding mix. The Company's net interest margin ("NIM") for 3Q'24 was 3.63%, compared to 3.68% (3Q'23).

Credit Loss Expense

Credit loss expense is charged to earnings to increase the ACL to a level deemed appropriate by management. The expense is primarily based upon the volume and type of lending conducted by the Company (including unfunded commitments), industry standards, general economic conditions, particularly as they relate to our market areas, and other factors related to our historic loss experience and the collectability of the loan portfolio. Credit loss expense for 3Q'24 of \$100,000 included \$118,000 in expense for loans and \$18,000 in release for unfunded commitments. Net charge-offs totaled \$11,000 in 3Q'24, compared to \$49,000 in 3Q'23. At September 30, 2024, the ACL for loans was \$5.4 million, representing 0.78% to total loans (this excludes the allowance for credit losses for unfunded commitments of \$140,000).

Noninterest income*(dollars in thousands)*

	3Q'24	3Q'23	Change 3Q'24 vs. 3Q'23	
			Amount	Percentage
Service charges and fees on deposit accounts	\$ 81	\$ 92	\$ (11)	(12.0)%
Debit card/ATM revenue, net	159	137	22	16.1
Mortgage banking revenue, net	133	121	12	9.9
Income from bank-owned life insurance	105	100	5	5.0
Other income	53	49	4	8.2
Total noninterest income	<u>\$ 531</u>	<u>\$ 499</u>	<u>\$ 32</u>	<u>6.4%</u>

The 6.4%, or \$32,000, increase in noninterest income mostly reflects increased revenue from debit card/ATM and mortgage banking, partially offset by declines in service charges and fees on deposit accounts, primarily nonsufficient funds ("NSF") fees.

Noninterest expense*(dollars in thousands)*

	3Q'24	3Q'23	Change 3Q'24 vs. 3Q'23	
			Amount	Percentage
Salaries and employee benefits	\$ 3,011	\$ 2,864	\$ 147	5.1%
Occupancy and equipment	408	427	(19)	(4.4)
Professional fees	151	149	2	1.3
Marketing	243	215	28	13.0
FDIC Assessment	111	104	7	6.7
Software maintenance, amortization and other	433	341	92	27.0
Other	577	623	(46)	(7.4)
Total noninterest expense	<u>\$ 4,934</u>	<u>\$ 4,723</u>	<u>\$ 211</u>	<u>4.5%</u>

Noninterest expense was up 4.5% over the third quarter of 2023 due primarily to increased expense for salaries and employee benefits and software maintenance, amortization and other, the latter being due to the Company's core conversion completed in the 4Q'23. The Company's efficiency ratio improved to 58.24% in 3Q'24, compared to 61.45% in 3Q'23.

Income Taxes

Income taxes are based on amounts reported in the condensed consolidated statements of earnings after adjustments for nontaxable income and nondeductible expenses and consist of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Income taxes were \$835,000 for the three months ended September 30, 2024, compared to income taxes of \$668,000 for the three months ended September 30, 2023 with the increase attributed to higher pre-tax earnings.

COMPARISON OF OPERATING RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

Earnings Summary

(dollars in thousands)

	Nine Months Ended		Change 2024 vs. 2023	
	September 30, 2024	September 30, 2023	Amount	Percentage
Net Interest Income	\$ 22,468	\$ 22,095	\$ 373	1.7%
Credit loss expense	755	743	12	1.6
Noninterest income	1,511	1,403	108	7.7
Noninterest expense	14,925	13,699	1,226	8.9
Income Taxes	1,991	2,178	(187)	(8.6)
Net earnings	\$ 6,308	\$ 6,878	\$ (570)	(8.3)%

Comparing the nine-month periods, higher revenue from interest and noninterest income was offset by higher noninterest expense.

Interest income

(dollars in thousands)

	Nine Months Ended		Change 2024 vs. 2023	
	September 30, 2024	September 30, 2023	Amount	Percentage
Interest income:				
Loans	\$ 31,584	\$ 25,633	\$ 5,951	23.2%
Debt securities	2,505	2,777	(272)	(9.8)
Other	1,408	650	758	116.6
Total interest income	35,497	29,060	6,437	22.2%
Interest expense:				
Deposits	12,410	6,141	6,269	102.1%
Other borrowings and FHLB advances	619	824	(205)	(24.9)
Total interest expense	13,029	6,965	6,064	87.1
Net interest income	\$ 22,468	\$ 22,095	\$ 373	1.7%

For the nine months ended September 30, 2024, funding costs outpaced the rise in earning asset yields. Net interest income increased \$373,000, or 1.7% compared to the same period a year ago. Average earning assets increased \$59.9 million, or 7.7%, while the Company's average interest-bearing liabilities increased \$52.5 million, or 9.7%. Rates on interest-bearing liabilities increased 122 basis points while yields on interest-earning assets increased 66 basis points. NIM was 3.57% for the nine months ended September 30, 2024 compared to 3.78% for the nine months ended September 30, 2023.

Credit Loss Expense

Credit loss expense is charged to earnings to increase the ACL to a level deemed appropriate by management. The expense is primarily based upon the volume and type of lending conducted by the Company (including unfunded commitments), industry standards, general economic conditions, particularly as they relate to our market areas, and other factors related to our historic loss experience and the collectability of the loan portfolio. The Company recorded credit loss expense of \$755,000 for the nine months ended September 30, 2024 compared to \$743,000 in credit loss expense for the nine months ended September 30, 2023.

At September 30, 2024, the ACL for loans was \$5.4 million, representing 0.78% to total loans (this excludes the allowance for credit losses for unfunded commitments of \$140,000). While management believes the estimates and assumptions used in its determination of the adequacy of the ACL are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future losses will not exceed the amount of the established ACL, or that any increases to the ACL that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of our ACL is subject to review by bank regulators, as part of the routine examination process, which may result in our adding to our ACL based upon their evaluation of information available to them at the time of examination.

Noninterest income*(dollars in thousands)*

	Nine Months Ended		Change 2024 vs. 2023	
	September 30, 2024	September 30, 2023	Amount	Percentage
Service charges and fees on deposit accounts	\$ 228	\$ 261	\$ (33)	(12.6)%
Debit card/ATM revenue, net	481	437	44	10.1
Mortgage banking revenue, net	329	250	79	31.6
Income from bank-owned life insurance	307	290	17	5.9
Other income	166	165	1	0.6
Total noninterest income	<u>\$ 1,511</u>	<u>\$ 1,403</u>	<u>\$ 108</u>	<u>7.7%</u>

Compared to the same period a year ago, the increase in noninterest income is mostly attributed to increased revenue from debit card/ATM and mortgage banking, partially offset by declines in service charges and fees on deposit accounts, primarily nonsufficient funds ("NSF") fees.

Noninterest expense*(dollars in thousands)*

	Nine Months Ended		Change 2024 vs. 2023	
	September 30, 2024	September 30, 2023	Amount	Percentage
Salaries and employee benefits	\$ 8,900	\$ 8,359	\$ 541	6.5%
Occupancy and equipment	1,238	1,235	3	0.2
Professional fees	447	416	31	7.5
Marketing	816	688	128	18.6
FDIC Assessment	325	275	50	18.2
Software maintenance, amortization and other	1,378	912	466	51.1
Other	1,821	1,814	7	0.4
Total noninterest expense	<u>\$ 14,925</u>	<u>\$ 13,699</u>	<u>\$ 1,226</u>	<u>8.9%</u>

Noninterest expense was up 8.9%, or \$1.2 million, over the nine-month period due mostly to higher expense for salaries and employee benefits and software maintenance, amortization and other, followed by higher marketing expense. The increase in software maintenance, amortization, and other is related to the Company's core conversion which took place in the fourth quarter of 2023. The \$128,000 increase in marketing expense reflects a higher budget for client development activities. The Company's efficiency ratio was 62.2% for the nine months ended September 30, 2024 compared to 58.3% for the nine months ended September 30, 2023.

Income Taxes

Income taxes are based on amounts reported in the condensed consolidated statements of earnings after adjustments for nontaxable income and nondeductible expenses and consist of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Income taxes were \$2.0 million for the nine months ended September 30, 2024, compared to income taxes of \$2.2 million for the nine months ended September 30, 2023 with the decrease attributed to lower pre-tax earnings.

LIQUIDITY

Liquidity describes our ability to meet financial obligations, including lending commitments and contingencies, which arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of the Company's clients, as well as meet current and planned expenditures. Management monitors the liquidity position daily.

Our liquidity is derived primarily from our deposit base, scheduled amortization and prepayments of loans and debt securities, funds provided by operations, and capital. Additionally, as a commercial bank, we are expected to maintain an adequate liquidity position. The liquidity position may consist of cash on hand, cash on demand deposit with correspondent banks, federal funds sold, and unpledged debt securities such as United States government treasury and agency securities, U.S. agency mortgage-backed securities, asset-backed securities, and municipal securities. Some of our securities are pledged to collateralize certain deposits through our participation in the State of Florida's QPD program. The market value of debt securities pledged to the QPD program was \$18.2 million at September 30, 2024 and \$16.4 million at December 31, 2023. At September 30, 2024, on-balance sheet liquidity (consisting of cash and cash equivalents and debt securities at fair value eligible for pledging) was \$181.6 million, or 19.5%, of total assets compared to \$146.8 million, or 17.2%, of total assets at December 31, 2023.

The Bank also has external sources of funds through the FHLB and unsecured lines of credit with correspondent banks. At September 30, 2024, the Bank had access to approximately \$123.8 million of available lines of credit secured by qualifying collateral with the FHLB, in addition to \$59.0 million in unsecured lines of credit maintained with correspondent banks. The Bank had \$10 million in FHLB advances at September 30, 2024. The Company also has a \$15 million revolving line of credit with TNB that matures in August 2025. As of September 30, 2024, the Company had a zero outstanding balance under this line. At September 30, 2024, available secured and unsecured borrowing capacity was \$197.7 million. When combined with maximum available brokered and wholesale funding capacity of \$232.9 million, off balance sheet funding sources totaled \$430.6 million.

Our core deposits consist of noninterest-bearing accounts, NOW accounts, money-market accounts, time deposits \$250,000 or less, and savings accounts. We closely monitor our level of certificates of deposit greater than \$250,000 and other large deposits. At September 30, 2024, total deposits were \$824.0 million, of which \$57.4 million were in certificates of deposits greater than \$250,000. Deposit balances increased \$75.3 million, or 10.1%, since December 31, 2023. The Bank's estimated uninsured deposits were \$316.3 million, or 38.4% of total deposits, including collateralized public fund accounts.

At September 30, 2024, total liquidity sources of \$612.2 million, or 74.3% of total deposits, represent 194% of estimated uninsured deposits, including collateralized public fund accounts.

We maintain a Contingency Funding Plan ("CFP") that identifies liquidity needs and weighs alternate courses of action designed to address those needs in emergency situations. We perform a monthly cash flow analysis and stress test the CFP to evaluate the expected funding needs and funding capacity during a liquidity stress event. We believe that the sources of available liquidity are adequate to meet all reasonably immediate short-term and intermediate-term demands and do not know of any trends, events, or uncertainties that may result in a significant adverse effect on our liquidity position.

CAPITAL RESOURCES

Stockholders' equity was \$88.5 million at September 30, 2024 compared to \$80.0 million at December 31, 2023. Retained earnings and a favorable change in accumulated other comprehensive loss were the two key drivers of the increase in equity. In 2020, the Company obtained a \$15 million 5-year revolving line of credit with TNB. At its discretion, the Company may take draws on that line and may contribute the proceeds as capital to the Bank. At September 30, 2024, the Company had a zero balance under this line of credit.

At September 30, 2024, the Bank was considered to be "well capitalized" under the FDIC's Prompt Corrective Action regulations.

The following is a summary at September 30, 2024 and December 31, 2023 of the regulatory capital requirements to be "well capitalized" and the Bank's capital position.

	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<i>(dollars in thousands)</i>						
As of September 30, 2024						
Tier 1 Leverage Capital	\$ 93,581	10.21%	36,670	4.00%	45,837	5.00%
Common Equity Tier 1 Risk-based Capital	93,581	13.53	31,113	4.50	44,942	6.50
Tier 1 Risk-based Capital	93,581	13.53	41,485	6.00	55,313	8.00
Total Risk-based Capital	99,110	14.33	55,313	8.00	69,141	10.00
As of December 31, 2023						
Tier 1 Leverage Capital	\$ 86,576	10.15%	\$ 34,133	4.00%	\$ 42,666	5.00%
Common Equity Tier 1 Risk-based Capital	86,576	13.18	29,566	4.50	42,706	6.50
Tier 1 Risk-based Capital	86,576	13.18	39,421	6.00	52,561	8.00
Total Risk-based Capital	92,185	14.03	52,561	8.00	65,702	10.00

The Bank is also subject to the following capital level threshold requirements under the FDIC’s Prompt Corrective Action regulations.

Capital Category	Threshold Ratios			
	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Common Equity Tier 1 Risk-Based Capital Ratio	Tier 1 Leverage Capital Ratio
Well capitalized	10.00%	8.00%	6.50%	5.00%
Adequately Capitalized	8.00%	6.00%	4.50%	4.00%
Undercapitalized	< 8.00%	< 6.00%	< 4.50%	< 4.00%
Significantly Undercapitalized	< 6.00%	< 4.00%	< 3.00%	< 3.00%
Critically Undercapitalized	Tangible Equity/Total Assets ≤ 2%			

Until such time as PMHG has \$3 billion in total consolidated assets, it will not be subject to any consolidated capital requirements.

OFF-BALANCE SHEET ARRANGEMENTS

Refer to Note 12 in the notes to condensed consolidated financial statements included in this Form 10-Q for the period ending September 30, 2024 for a discussion of off-balance sheet arrangements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon management's evaluation of those controls and procedures performed within the 90 days preceding the filing of this Report, our Principal Executive Officer and Principal Financial Officer concluded that, subject to the limitations noted below, the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by PMHG in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms.

We intend to continually review and evaluate the design and effectiveness of the Company's disclosure controls and procedures and to improve the Company's controls and procedures over time and to correct any deficiencies that we may discover in the future. The goal is to ensure that senior management has timely access to all material financial and nonfinancial information concerning the Company's business. While we believe the present design of the disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

(b) Changes in Internal Controls

We have made no significant changes in our internal controls over financial reporting during the quarter ended September 30, 2024 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

(c) Limitations on the Effectiveness of Controls

Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to various matters incidental to the conduct of a banking business. Presently, we believe that we are not a party to any legal proceedings in which resolution would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows, or capital levels.

Item 1A. Risk Factors

While the Company attempts to identify, manage, and mitigate risks and uncertainties associated with its business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023 describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our cash flows, results of operations, and financial condition. The Company has not updated any risk factors since the publication of our Form 10-Q for the quarter ended March 31, 2024.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the third quarter of 2024, the Company issued 992 shares to members of its Board of Directors in lieu of cash fees calculated at 110% of the cash value to be \$25,000. These shares were all issued in accordance with SEC Rule 701 and the intrastate exemption from registration pursuant to Section 3(a)(11) of the Securities Act of 1933, because the Company is doing business within the State of Florida and each acquirer and offeree of securities is a director of the Company and resides within the State of Florida.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The following exhibits are filed with or incorporated by reference into this Report.

Exhibit Number	Description of Exhibit	Incorporated by Reference From or Filed Herewith
3.1	Articles of Incorporation	Exhibit 3.1 to Registration Statement on Form S-1 filed on October 18, 2013
3.2	Bylaws	Exhibit 3.2 to Registration Statement on Form S-1 filed on October 18, 2013
3.3	First Amendment to Bylaws dated December 17, 2015	Exhibit 3.3 to Form 10-Q filed on August 11, 2016
3.4	Second Amendment to Bylaws dated January 17, 2019	Exhibit 3.4 to Form 8-K filed on January 18, 2019
3.5	Third Amendment to Bylaws dated February 18, 2021	Exhibit 3.5 to Form 8-K filed on February 18, 2021
4.1	Specimen Common Stock Certificate	Exhibit 4.1 to Registration Statement on Form S-1 filed on October 18, 2013
31.1	Certification Under Section 302 of Sarbanes-Oxley by Sammie D. Dixon, Jr., Principal Executive Officer	Filed herewith
31.2	Certification Under Section 302 of Sarbanes-Oxley by Clint F. Weber, Principal Financial Officer	Filed herewith
32.1	Certification by the Chief Executive Officer and the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley	Filed herewith
101.INS	Inline XBRL Instance Document	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definitions Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	

* Furnished, not filed, for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

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

PRIME MERIDIAN HOLDING COMPANY

November 8, 2024

Date

/s/ Sammie D. Dixon, Jr.

Sammie D. Dixon, Jr.
*Vice Chairman, Chief Executive Officer, President,
and Principal Executive Officer*

November 8, 2024

Date

By: /s/ Clint F. Weber

Clint F. Weber
*Chief Financial Officer, Executive Vice President,
Principal Accounting Officer and Principal Financial Officer*

Certification
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Sammie D. Dixon, Jr., certify that:

1. I have reviewed this report on Form 10-Q for the period ended September 30, 2024 of Prime Meridian Holding Company;
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: November 8, 2024

/s/ Sammie D. Dixon, Jr.

Sammie D. Dixon, Jr.

*Vice Chairman, Chief Executive Officer, President,
and Principal Executive Officer*

Certification
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Clint F. Weber, certify that:

1. I have reviewed this report on Form 10-Q for the period ended September 30, 2024 of Prime Meridian Holding Company;
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: November 8, 2024

/s/ Clint F. Weber

Clint F. Weber

Chief Financial Officer, Executive Vice President,

Principal Accounting Officer and Principal Financial Officer

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned officers of Prime Meridian Holding Company (the "Company"), hereby certify that the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2024

/s/ Sammie D. Dixon, Jr.

Name: Sammie D. Dixon, Jr.

Title: *Vice Chairman, Chief Executive Officer, President, and Principal Executive Officer*

Dated: November 8, 2024

/s/ Clint F. Weber

Name: Clint F. Weber

Title: *Chief Financial Officer, Executive Vice President, Principal Accounting Officer and Principal Financial Officer*

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and is not being filed as part of the Report or as a separate disclosure document.