

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, 2025

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- 209052

SKYLINE BANKSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Virginia

(State or Other Jurisdiction of Incorporation)

47-5486027

(I.R.S. Employer Identification Number)

212 East Main Street

Floyd, Virginia

(Address of Principal Executive Offices)

24091

(Zip Code)

(540) 745-4191

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
	None	

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

Indicate by checkmark whether the Registrant has submitted electronically any Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☐

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

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

The registrant had 5,651,704 shares of Common Stock, no par value per share, outstanding as of November 12, 2025.

PART I FINANCIAL INFORMATION

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Part I. Financial Information

Item 1. Financial Statements

Skyline Bankshares, Inc. and Subsidiary Consolidated Balance Sheets September 30, 2025 and December 31, 2024

(dollars in thousands)	September 30, 2025 <i>(Unaudited)</i>	December 31, 2024 <i>(Audited)</i>
Assets		
Cash and due from banks	\$ 24,260	\$ 17,889
Interest-bearing deposits with banks	32,042	1,562
Federal funds sold	240	-
Total cash and cash equivalents	56,542	19,451
Investment securities available for sale	114,493	118,287
Restricted equity securities	4,662	4,034
Loans	1,036,439	984,459
Allowance for credit losses	(8,547)	(8,027)
Net loans	1,027,892	976,432
Cash value of life insurance	27,013	26,743
Other real estate owned	-	140
Properties and equipment, net	40,906	34,663
Accrued interest receivable	4,135	4,013
Core deposit intangible	3,217	3,815
Goodwill	7,900	7,900
Deferred tax assets, net	4,146	5,593
Other assets	15,621	16,528
	<u>\$ 1,306,527</u>	<u>\$ 1,217,599</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	\$ 363,910	\$ 337,918
Interest-bearing	806,263	754,285
Total deposits	1,170,173	1,092,203
Borrowings	26,500	25,000
Federal funds purchased	-	4,254
Accrued interest payable	644	950
Other liabilities	7,330	6,524
	<u>1,204,647</u>	<u>1,128,931</u>
Commitments and contingencies (Note 11)		
Stockholders' Equity		
Preferred stock, no par value; 5,000,000 shares authorized, none issued	-	-
Common stock, no par value; 25,000,000 shares authorized, 5,651,704 and 5,651,704 issued and outstanding at September 30, 2025 and December 31, 2024, respectively	-	-
Surplus	33,658	33,507
Retained earnings	82,225	73,714
Accumulated other comprehensive loss	(14,003)	(18,553)
	<u>101,880</u>	<u>88,668</u>
	<u>\$ 1,306,527</u>	<u>\$ 1,217,599</u>

See Notes to Consolidated Financial Statements

Skyline Bankshares, Inc. and Subsidiary
Consolidated Statements of Income
For the Three and Nine Months ended September 30, 2025 and 2024

(dollars in thousands except share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2025	2024	2025	2024
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income				
Loans and fees on loans	\$ 15,925	\$ 12,759	\$ 46,013	\$ 35,433
Interest-bearing deposits in banks	262	150	435	298
Federal funds sold	7	25	14	33
Interest on taxable securities	590	678	1,827	2,023
Interest on nontaxable securities	48	59	146	156
Dividends	42	41	187	155
	<u>16,874</u>	<u>13,712</u>	<u>48,622</u>	<u>38,098</u>
Interest expense				
Deposits	3,695	3,407	10,471	9,049
Interest on borrowings	288	374	1,077	1,148
	<u>3,983</u>	<u>3,781</u>	<u>11,548</u>	<u>10,197</u>
Net interest income	<u>12,891</u>	<u>9,931</u>	<u>37,074</u>	<u>27,901</u>
Provision for credit losses	<u>189</u>	<u>738</u>	<u>651</u>	<u>902</u>
Net interest income after Provision for credit losses	<u>12,702</u>	<u>9,193</u>	<u>36,423</u>	<u>26,999</u>
Noninterest income				
Service charges on deposit accounts	651	598	1,841	1,693
Other service charges and fees	1,050	940	2,982	2,698
Net realized losses on securities	-	-	-	(141)
Mortgage origination fees	52	108	169	209
Increase in cash value of life insurance	184	161	538	458
Life insurance income	-	-	60	221
Other income	24	44	58	82
	<u>1,961</u>	<u>1,851</u>	<u>5,648</u>	<u>5,220</u>
Noninterest expenses				
Salaries and employee benefits	4,987	4,525	14,337	13,194
Occupancy and equipment	1,465	1,387	4,349	4,191
Data processing expense	864	744	2,585	2,079
FDIC Assessments	241	153	725	441
Advertising	304	256	798	713
Bank franchise tax	132	132	396	330
Director fees	103	52	298	178
Professional fees	304	188	854	580
Telephone expense	115	117	357	353
Core deposit intangible amortization	178	107	598	266
Merger related expenses	-	1,143	-	1,500
Other expense	872	821	2,351	2,158
	<u>9,565</u>	<u>9,625</u>	<u>27,648</u>	<u>25,983</u>
Net income before income taxes	<u>5,098</u>	<u>1,419</u>	<u>14,423</u>	<u>6,236</u>
Income tax expense	<u>1,022</u>	<u>362</u>	<u>2,973</u>	<u>1,314</u>
Net income	<u>\$ 4,076</u>	<u>\$ 1,057</u>	<u>\$ 11,450</u>	<u>\$ 4,922</u>
Net income per share	<u>\$ 0.73</u>	<u>\$ 0.19</u>	<u>\$ 2.05</u>	<u>\$ 0.89</u>
Weighted average shares outstanding	<u>5,584,704</u>	<u>5,553,579</u>	<u>5,584,704</u>	<u>5,557,229</u>
Dividends declared per share	<u>\$ 0.27</u>	<u>\$ 0.23</u>	<u>\$ 0.52</u>	<u>\$ 0.46</u>

See Notes to Consolidated Financial Statements

Skyline Bankshares, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
For the Nine and Three Months ended September 30, 2025 and 2024

(dollars in thousands)	Nine Months Ended September 30,	
	2025 (Unaudited)	2024 (Unaudited)
Net income	\$ 11,450	\$ 4,922
Other comprehensive income (loss)		
Net change in fair value of cash flow hedge:		
Change in fair value of cash flow hedge	(18)	-
Tax effect	4	-
Unrealized gains on investment securities available for sale:		
Unrealized gains arising during the period	5,778	4,249
Tax effect	(1,214)	(892)
Reclassification of net realized losses during the period	-	141
Tax effect	-	(30)
Total other comprehensive income	4,550	3,468
Total comprehensive income	<u>\$ 16,000</u>	<u>\$ 8,390</u>

(dollars in thousands)	Three Months Ended September 30,	
	2025 (Unaudited)	2024 (Unaudited)
Net Income	\$ 4,076	\$ 1,057
Other comprehensive income (loss)		
Net change in fair value of cash flow hedge:		
Change in fair value of cash flow hedge	(29)	-
Tax effect	6	-
Unrealized gains on investment securities available for sale:		
Unrealized gains arising during the period	1,837	5,423
Tax effect	(387)	(1,139)
Total other comprehensive income	1,427	4,284
Total comprehensive income	<u>\$ 5,503</u>	<u>\$ 5,341</u>

See Notes to Consolidated Financial Statements

Skyline Bankshares, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the Nine and Three Months ended September 30, 2025 and 2024 (unaudited)

(dollars in thousands except share amounts)

	<u>Common Stock</u>		<u>Surplus</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, December 31, 2023	5,584,204	\$ -	\$ 33,356	\$ 68,866	\$ (19,340)	\$ 82,882
Net income	-	-	-	2,051	-	2,051
Other comprehensive loss	-	-	-	-	(568)	(568)
Dividends paid (\$0.23 per share)	-	-	-	(1,279)	-	(1,279)
Stock awards issued	65,000	-	-	-	-	-
Share-based compensation	-	-	19	-	-	19
Common stock repurchased	(20,000)	-	(230)	-	-	(230)
Balance, March 31, 2024	<u>5,629,204</u>	<u>\$ -</u>	<u>\$ 33,145</u>	<u>\$ 69,638</u>	<u>\$ (19,908)</u>	<u>\$ 82,875</u>
Net income	-	-	-	1,814	-	1,814
Other comprehensive loss	-	-	-	-	(248)	(248)
Share-based compensation	-	-	68	-	-	68
Balance, June 30, 2024	<u>5,629,204</u>	<u>\$ -</u>	<u>\$ 33,213</u>	<u>\$ 71,452</u>	<u>\$ (20,156)</u>	<u>\$ 84,509</u>
Net income	-	-	-	1,057	-	1,057
Other comprehensive income	-	-	-	-	4,284	4,284
Dividends paid (\$0.23 per share)	-	-	-	(1,297)	-	(1,297)
Stock awards issued	10,000	-	-	-	-	-
Share-based compensation	-	-	70	-	-	70
Balance, September 30, 2024	<u>5,639,204</u>	<u>\$ -</u>	<u>\$ 33,283</u>	<u>\$ 71,212</u>	<u>\$ (15,872)</u>	<u>\$ 88,623</u>
Balance, December 31, 2024	5,651,704	\$ -	\$ 33,507	\$ 73,714	\$ (18,553)	\$ 88,668
Net income	-	-	-	3,573	-	3,573
Other comprehensive income	-	-	-	-	2,044	2,044
Dividends paid (\$0.25 per share)	-	-	-	(1,413)	-	(1,413)
Share-based compensation	-	-	49	-	-	49
Balance, March 31, 2025	<u>5,651,704</u>	<u>\$ -</u>	<u>\$ 33,556</u>	<u>\$ 75,874</u>	<u>\$ (16,509)</u>	<u>\$ 92,921</u>
Net income	-	-	-	3,801	-	3,801
Other comprehensive income	-	-	-	-	1,079	1,079
Share-based compensation	-	-	51	-	-	51
Balance, June 30, 2025	<u>5,651,704</u>	<u>\$ -</u>	<u>\$ 33,607</u>	<u>\$ 79,675</u>	<u>\$ (15,430)</u>	<u>\$ 97,852</u>
Net income	-	-	-	4,076	-	4,076
Other comprehensive income	-	-	-	-	1,427	1,427
Dividends paid (\$0.27 per share)	-	-	-	(1,526)	-	(1,526)
Share-based compensation	-	-	51	-	-	51
Balance, September 30, 2025	<u>5,651,704</u>	<u>\$ -</u>	<u>\$ 33,658</u>	<u>\$ 82,225</u>	<u>\$ (14,003)</u>	<u>\$ 101,880</u>

See Notes to Consolidated Financial Statements

Skyline Bankshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows, continued
For the Nine Months ended September 30, 2025 and 2024

(dollars in thousands)	Nine Months Ended September 30,	
	2025 (Unaudited)	2024 (Unaudited)
<i>Cash flows from operating activities</i>		
Net income	\$ 11,450	\$ 4,922
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,499	1,527
Amortization of core deposit intangible	598	266
Accretion of loan discount and deposit premium, net	(784)	(128)
Provision for credit losses	651	902
Deferred income taxes	238	1,164
Net realized losses on securities	-	141
Accretion of discount on securities, net of amortization of premiums	22	59
Deferred compensation	88	133
Share-based compensation	151	157
Loss on sale of other real estate owned	27	-
Life insurance income	(60)	(221)
Changes in assets and liabilities:		
Cash value of life insurance	(538)	(458)
Accrued interest receivable	(122)	66
Other assets	889	8
Accrued interest payable	(306)	173
Other liabilities	622	(462)
Net cash provided by operating activities	14,425	8,249
<i>Cash flows from investing activities</i>		
Activity in available for sale securities:		
Sales	-	46,210
Maturities/calls/paydowns	9,549	7,966
Purchases of restricted equity securities	(628)	(415)
Net increase in loans	(51,177)	(48,101)
Proceeds from life insurance contracts	328	730
Proceeds from sale of other real estate owned	113	-
Purchases of property and equipment	(7,742)	(2,267)
Cash received in business combination, net of cash paid	-	(17,733)
Net cash used in investing activities	(49,557)	(13,610)
<i>Cash flows from financing activities</i>		
Net increase in deposits	77,916	31,826
Proceeds from FHLB advances	279,500	165,000
Repayments on FHLB advances	(274,500)	(170,000)
Prepayment of FHLB advances	-	(8,088)
Net change in fed funds purchased	(4,254)	-
Advances on short-term line of credit	4,000	5,000
Payment on short-term line of credit	(7,500)	-
Repayment of bank term funding program advances	-	(2,500)
Common stock repurchased	-	(230)
Dividends paid	(2,939)	(2,576)
Net cash provided by financing activities	72,223	18,432
Net increase in cash and cash equivalents	37,091	13,071
<i>Cash and cash equivalents, beginning</i>	19,451	22,093
<i>Cash and cash equivalents, ending</i>	<u>\$ 56,542</u>	<u>\$ 35,164</u>

See Notes to Consolidated Financial Statements

Skyline Bankshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows, continued
For the Nine Months ended September 30, 2025 and 2024

(dollars in thousands)	Nine Months Ended September 30,	
	2025 <i>(Unaudited)</i>	2024 <i>(Unaudited)</i>
<i>Supplemental disclosure of cash flow information</i>		
Interest paid	\$ 11,854	\$ 9,749
Taxes paid	\$ 1,811	\$ 1,235
<i>Supplemental disclosure of noncash transactions</i>		
Effect on equity of change in net unrealized gain on available for sale securities	\$ 4,564	\$ 3,468
Unrealized holding loss on cash flow hedge, net of tax	\$ (14)	\$ -
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ -	\$ 35
<i>Business combinations</i>		
Assets acquired (excluding goodwill)	\$ -	\$ 154,128
Liabilities assumed	\$ -	\$ 133,771
Net assets	\$ -	\$ 20,357
Goodwill recorded	\$ -	\$ 4,643
Cash paid to acquire Johnson County Bank	\$ -	\$ 25,000

See Notes to Consolidated Financial Statements

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Skyline Bankshares, Inc. (the “Company”) is a bank holding company headquartered in Floyd, Virginia. The Company offers a wide range of retail and commercial banking services through its wholly-owned bank subsidiary, Skyline National Bank (the “Bank”). On January 1, 2023, the Company changed its name from Parkway Acquisition Corp. to Skyline Bankshares, Inc. to align its brand across the entire organization.

The Company was incorporated as a Virginia corporation on November 2, 2015. The Company was formed as a business combination shell company for the purpose of completing a business combination transaction between Grayson Bankshares, Inc. (“Grayson”) and Cardinal Bankshares Corporation (“Cardinal”) in which Grayson and Cardinal merged with and into the Company, with the Company as the surviving corporation (the “Cardinal merger”), on July 1, 2016. Upon completion of the Cardinal merger, the Bank of Floyd (“Floyd”), a wholly-owned subsidiary of Cardinal, was merged with and into the Bank (formerly Grayson National Bank), a wholly-owned subsidiary of Grayson. Effective March 13, 2017, the Bank changed its name to Skyline National Bank.

On July 1, 2018, the Company acquired Great State Bank (“Great State”), based in Wilkesboro, North Carolina, through the merger of Great State with and into the Bank, with the Bank as the surviving bank.

On April 16, 2024, the Company entered into a definitive agreement to acquire Johnson County Bank (“JCB”), based in Mountain City, Tennessee, in an all-cash transaction valued at \$25.0 million, with the Bank as the surviving bank. The purpose of this acquisition was to facilitate the Bank’s entry into Eastern Tennessee. The transaction closed and the merger of JCB with and into the Bank became effective on September 1, 2024. The Company was considered the acquiror and JCB was considered the acquiree in the transaction for accounting purposes. Pursuant to the JCB merger, the Company acquired \$154.1 million of assets, including \$87.2 million in loans and assumed \$133.8 million in liabilities, including \$125.3 million of deposits, on September 1, 2024. Such amounts include preliminary estimated fair value adjustments, which are subject to change.

For purposes of this quarterly report on Form 10-Q, all information contained herein as of and for periods prior to September 1, 2024 reflects the operations of the Company prior to the JCB merger. Unless this report otherwise indicates or the context otherwise requires, all references to the “Company” as of and for periods subsequent to September 1, 2024 refer to the combined company and its subsidiary as a combined entity after the merger, and all references to the “Company” as of and for periods prior to September 1, 2024 are references to the Company and its subsidiary as a combined entity prior to the merger.

The Bank was organized under the laws of the United States in 1900 and now serves the Virginia counties of Grayson, Floyd, Carroll, Wythe, Pulaski, Montgomery, Roanoke, Patrick and Washington, the North Carolina counties of Alleghany, Ashe, Burke, Caldwell, Catawba, Cleveland, Davie, Iredell, Watauga, Wilkes, and Yadkin, and the Tennessee county of Johnson, and the surrounding areas, through twenty-eight full-service banking offices and two loan production offices. As a Federal Deposit Insurance Corporation (“FDIC”) insured national banking association, the Bank is subject to regulation by the Comptroller of the Currency and the FDIC. The Company is regulated by the Board of Governors of the Federal Reserve System (the “Federal Reserve”).

The consolidated financial statements as of September 30, 2025 and for the three and nine month periods ended September 30, 2025 and 2024 included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the information furnished in the interim consolidated financial statements reflects all adjustments necessary to present fairly the Company’s consolidated financial position, results of operations, changes in stockholders’ equity and cash flows for such interim periods. Management believes that all interim period adjustments are of a normal recurring nature. These consolidated financial statements should be read in conjunction with the Company’s audited financial statements and the notes thereto as of December 31, 2024, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2024. The results of operations for the three and nine months ended September 30, 2025 are not necessarily indicative of the results to be expected for the full year.

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)

Note 1. Organization and Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for credit and foreclosed real estate losses, management obtains independent appraisals for significant properties.

Substantially all of the Bank’s loan portfolio consists of loans in its market area. Accordingly, the ultimate collectability of a substantial portion of the Bank’s loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions. The regional economy is diverse, but influenced to an extent by the manufacturing and agricultural segments.

While management uses available information to recognize loan and foreclosed real estate losses, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as a part of their routine examination process, periodically review the Bank’s allowances for credit and foreclosed real estate losses. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowances for credit and foreclosed real estate losses may change materially in the near term.

The Company seeks strategies that minimize the tax effect of implementing their business strategies. As such, judgments are made regarding the ultimate consequence of long-term tax planning strategies, including the likelihood of future recognition of deferred tax benefits. The Company’s tax returns are subject to examination by both Federal and State authorities. Such examinations may result in the assessment of additional taxes, interest and penalties. As a result, the ultimate outcome, and the corresponding financial statement impact, can be difficult to predict with accuracy.

Accounting for pension benefits, costs and related liabilities are developed using actuarial valuations. These valuations include key assumptions determined by management, including the discount rate and expected long-term rate of return on plan assets. Material changes in pension costs may occur in the future due to changes in these assumptions.

Segment Reporting

The Company adopted Accounting Standards Update (“ASU”) 2023-07 “*Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures*” on January 1, 2024. The Company has determined that its banking subsidiary meets the aggregation criteria of Accounting Standards Codification (“ASC”) 280, *Segment Reporting*, as its current operating model is structured whereby its banking subsidiary serves a similar base of retail and commercial clients utilizing a company-wide offering of similar products and services managed through similar processes and platforms that are collectively reviewed by the Company’s Chief Executive Officer, who has been identified as the chief operating decision maker (“CODM”).

The CODM regularly assesses performance of the aggregated single operating and reporting segment and decides how to allocate resources based on net income calculated on the same basis as is net income reported in the Company’s consolidated statements of income and other comprehensive income. The measure of segment assets is reported on the balance sheet as total consolidated assets. The CODM is also regularly provided with expense information at a level consistent with that disclosed in the Company’s consolidated statements of income and other comprehensive income.

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)

Note 1. Organization and Summary of Significant Accounting Policies, continued

Critical Accounting Policies

Management believes the policies with respect to the methodology for the determination of the allowance for credit losses, and asset impairment judgments, such as the recoverability of intangible assets and credit losses on investment securities, involve a higher degree of complexity and require management to make difficult and subjective judgments that often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. These critical policies and their application are periodically reviewed with the Audit Committee and the Board of Directors.

Derivative Instruments and Hedging Activities

The Company follows ASC Topic 815, Derivatives and Hedging, with regard to disclosure requirements for derivatives and hedging activities, with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Qualitative disclosures explain the Company's objectives and strategies for using derivatives, and quantitative disclosures are made regarding the fair value of, and gains and losses on, derivative instruments, and about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company reports all derivatives on its balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with 1) the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge, or 2) the earnings effect of the hedged forecasted transactions in a cash flow hedge. See additional discussion of interest rate swap contracts in Note 10 to the consolidated financial statements.

Reclassification

No reclassifications have been made to the prior years' financial statements to place them on a comparable basis with the current presentation.

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)

Note 1. Organization and Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements

The following accounting standards may affect the future financial reporting by the Company:

In December 2023, the FASB amended the Income Taxes topic in the Accounting Standards Codification to improve the transparency of income tax disclosures. The amendments are effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2024, the FASB issued amendments to the Codification that remove references to various FASB Concepts Statements. The amendments are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company will apply the amendments prospectively to all new transactions recognized on or after the date that the Company first applies the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2024, the FASB issued Accounting Standards Update 2024-03 ("ASU 2024-03") which amended the Income Statement—Reporting Comprehensive Income topic in the Accounting Standards Codification to require public companies to disclose, in interim and annual reporting periods, additional information about certain expenses in the notes to financial statements. The amendments are effective for annual periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The Company will apply the amendments prospectively to financial statements issued for reporting periods after the effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2025, the FASB amended the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2025, the FASB amended an SEC paragraph in the Accounting Standards Codification pursuant to the issuance of SEC Staff Accounting Bulletin No. 122. The amendment was effective upon issuance. The Company does not expect this amendment to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Skyline Bankshares, Inc. and Subsidiary
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Note 2. Business Combinations

On September 1, 2024, the Company completed its merger with JCB as discussed above in Note 1. The merger was accounted for under the acquisition method of accounting. The Company is considered the acquiring entity in this business combination for accounting purposes. Under the terms of the merger agreement, JCB was acquired by the Company in an all-cash transaction valued at \$25.0 million. The Company calculated fair values of all assets and liabilities acquired in the transaction. The assets and liabilities of JCB have been recorded at their estimated fair values and added to those of the Company for periods following the merger date. Valuations of acquired JCB assets and liabilities may be refined for up to one year following the merger date. The Company does not expect that any portion of goodwill will be deductible for tax purposes.

The following table presents the JCB assets acquired and liabilities assumed as of September 1, 2024 as well as the related fair value adjustments and determination of goodwill.

(dollars in thousands)	As Reported by JCB	Fair Value Adjustments	As Reported by the Company
Assets			
Cash and cash equivalents	\$ 7,267	\$ -	\$ 7,267
Investment securities available for sale	48,293	(1,790)	46,503
Restricted equity securities	482	-	482
Loans	91,411	(4,235)	87,176
Allowance for credit losses	(823)	627	(196)
Cash value of life insurance	3,700	-	3,700
Other real estate owned	140	-	140
Property and equipment	511	1,307	1,818
Accrued interest receivable	413	-	413
Core deposit intangible	-	3,380	3,380
Deferred tax assets, net	1,934	231	2,165
Other assets	1,346	(66)	1,280
Total assets acquired	<u>\$ 154,674</u>	<u>\$ (546)</u>	<u>\$ 154,128</u>
Liabilities			
Deposits	\$ 125,437	\$ (146)	\$ 125,291
Borrowings	8,000	88	8,088
Accrued interest payable	275	-	275
Other liabilities	112	5	117
Total liabilities acquired	<u>\$ 133,824</u>	<u>\$ (53)</u>	<u>\$ 133,771</u>
Net assets acquired			20,357
Cash consideration			25,000
Goodwill			<u>\$ 4,643</u>

Management made significant estimates and exercised significant judgement in accounting for the acquisition of JCB. The following is a brief description of the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed.

Investment Securities Available for Sale

The estimated fair value of the acquired portfolio of debt securities was based on quoted market prices. All of the acquired portfolio was sold upon completion of the acquisition.

Skyline Bankshares, Inc. and Subsidiary
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Note 2. Business Combinations, continued

Loans and Allowance for Credit Losses

The fair valuation process identified loans with credit risk indicators that qualified for “purchase credit deteriorated” (“PCD”) status. PCD and non-PCD loans were then evaluated for credit risk and other fair value indicators. Consistent with GAAP, JCB’s related allowance for credit losses on loans was *not* recorded. Upon the acquisition of JCB, the PCD loans received an initial allowance for credit losses of \$196 thousand that represents an adjustment to the amortized cost basis of the loans, with no impact to earnings.

Credit risk was quantified using a probability of default (“PD”)/loss given default (“LGD”) methodology from a market participant perspective and applied to each loan’s outstanding principal balance. PD rates were applied based on FDIC call report code and risk rating category. LGD rates were applied based on FDIC call report code. Other fair value indicators were quantified using a discounted cash flow methodology, utilizing a built-up discount rate that contemplates current index rates adjusted for market assumed premiums. Cash flows were generated based upon the loans’ underlying characteristics and estimated prepayment speeds.

The following table provides information on PCD and non-PCD loans as of the acquisition date:

(dollars in thousands)	PCD Loans	Non-PCD Loans	Total Loans
<u>September 1, 2024</u>			
Number of Loans	128	1,136	1,264
JCB recorded value	\$ 6,127	\$ 85,284	\$ 91,411
Discount for credit risk	(256)	(370)	(626)
Discount for non-credit factors	(396)	(3,409)	(3,805)
Reclass of PCD discount to ACL	196	-	196
Fair value	<u>\$ 5,671</u>	<u>\$ 81,505</u>	<u>\$ 87,176</u>

Property and Equipment

The fair value of premises acquired was based on recent third-party appraisals. Acquired equipment was based on the remaining net book value of JCB, which approximated fair value.

Intangible Assets

Core deposit relationships provide a stable source of funds for lending and contribute to profitability. The core deposit intangible was valued using an income approach focused on cost savings, which recognizes the cost savings represented by the expense of maintaining the core deposit base versus the cost of an alternative funding source. The valuation incorporates assumptions related to account retention, discount rates, deposit interest rates, deposit maintenance costs and alternative funding rates.

Deferred Tax Asset

Application of the fair value measurements resulted in an increase to the deferred tax asset. The deferred tax assets were calculated using a blended tax rate of 22.20%.

Other Assets

The fair value adjustment of other assets was based on the Company’s evaluation of acquired other assets.

Skyline Bankshares, Inc. and Subsidiary
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Note 2. Business Combinations, continued

Deposits

Deposits were valued using methods appropriate to their characteristics. The fair value of noninterest bearing demand deposits, interest bearing demand deposits, money market and savings deposit accounts were assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Time deposits were valued at the present value of the expected contractual payments discounted at market rates for instruments with similar terms.

Borrowings

The estimated fair value of borrowings was determined by obtaining payoff quotes from the Federal Home Loan Bank. The borrowings were paid off upon completion of the acquisition.

Other Liabilities

The fair value adjustment of other liabilities was based on the Company's evaluation of acquired other liabilities.

Supplemental Pro Forma Information (dollars in thousands except per share data)

The table below presents supplemental pro forma information as if the JCB acquisition had occurred at the beginning of the earliest period presented, which was January 1, 2024. Pro forma results include adjustments for amortization and accretion of fair value adjustments and do not include any projected cost savings or other anticipated benefits of the merger. Therefore, the pro forma financial information is not indicative of the results of operations that would have occurred had the transactions been effected on the assumed date. Pre-tax merger-related costs of \$1.5 million and \$1.1 million included in the Company's consolidated statements of operations for the nine months and three months ended September 30, 2024 and are not included in the pro forma statements below.

	Three Months Ended September 30, 2024	Nine Months Ended September 30, 2024
	(Unaudited)	(Unaudited)
Net interest income	\$ 10,842	\$ 31,532
Net income (a)	\$ 551	\$ 4,968
Weighted average shares outstanding (b)	5,553,579	5,557,229
Earnings per common share	\$ 0.10	\$ 0.89

(a) Supplemental pro forma net income includes the impact of certain fair value adjustments. Supplemental pro forma net income does not include assumptions on cost savings or the impact of merger-related expenses.

(b) Weighted average shares outstanding are not affected by the merger because no common stock was issued in connection with the JCB acquisition. The acquisition was an all-cash transaction valued at \$25.0 million.

Skyline Bankshares, Inc. and Subsidiary
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Note 3. Investment Securities

Investment securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at September 30, 2025 and December 31, 2024 is summarized in the following table. There was no allowance for credit losses on available for sale securities as of September 30, 2025 and December 31, 2024.

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2025				
<i>Available for sale:</i>				
U.S. Government agencies	\$ 25,419	\$ -	\$ (2,686)	\$ 22,733
Mortgage-backed securities	59,468	-	(6,953)	52,515
State and municipal securities	46,263	6	(7,024)	39,245
	<u>\$ 131,150</u>	<u>\$ 6</u>	<u>\$ (16,663)</u>	<u>\$ 114,493</u>
December 31, 2024				
<i>Available for sale:</i>				
U.S. Treasury securities	\$ 2,502	\$ -	\$ (14)	\$ 2,488
U.S. Government agencies	25,309	-	(3,804)	21,505
Mortgage-backed securities	65,080	-	(9,542)	55,538
Corporate securities	1,500	-	(9)	1,491
State and municipal securities	46,331	5	(9,071)	37,265
	<u>\$ 140,722</u>	<u>\$ 5</u>	<u>\$ (22,440)</u>	<u>\$ 118,287</u>

Restricted equity securities totaled \$4.7 million at September 30, 2025 and \$4.0 million at December 31, 2024. Restricted equity securities consist of investments in stock of the Federal Home Loan Bank of Atlanta ("FHLB"), CBB Financial Corp., Pacific Coast Bankers Bank, and the Federal Reserve Bank of Richmond, all of which are carried at cost. All of these entities are upstream correspondents of the Bank. The FHLB requires financial institutions to make equity investments in the FHLB in order to borrow money. The Federal Reserve requires banks to purchase stock as a condition for membership in the Federal Reserve System. The Bank's stock in CBB Financial Corp. and Pacific Coast Bankers Bank is restricted only in the fact that the stock may only be repurchased by the respective banks.

The following tables detail unrealized losses and related fair values in the Company's available for sale investment securities portfolios for which an allowance for credit losses has not been recorded as of September 30, 2025 and December 31, 2024. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2025 and December 31, 2024.

(dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2025						
<i>Available for sale:</i>						
U.S. Government agencies	\$ -	\$ -	\$ 22,733	\$ (2,686)	\$ 22,733	\$ (2,686)
Mortgage-backed securities	-	-	52,515	(6,953)	52,515	(6,953)
State and municipal securities	-	-	37,929	(7,024)	37,929	(7,024)
Total securities available for sale	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,177</u>	<u>\$ (16,663)</u>	<u>\$ 113,177</u>	<u>\$ (16,663)</u>
December 31, 2024						
<i>Available for sale:</i>						
U.S. Treasury securities	\$ -	\$ -	\$ 2,488	\$ (14)	2,488	\$ (14)
U.S. Government agencies	-	-	21,505	(3,804)	21,505	(3,804)
Mortgage-backed securities	-	-	55,538	(9,542)	55,538	(9,542)
Corporate securities	-	-	1,491	(9)	1,491	(9)
State and municipal securities	584	(16)	35,967	(9,055)	36,551	(9,071)
Total securities available for sale	<u>\$ 584</u>	<u>\$ (16)</u>	<u>\$ 116,989</u>	<u>\$ (22,424)</u>	<u>\$ 117,573</u>	<u>\$ (22,440)</u>

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Note 3. Investment Securities, continued

At September 30, 2025, 76 investment securities with unrealized losses had depreciated 12.83 percent from their total amortized cost basis. Management evaluates all available for sale investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At September 30, 2025 and December 31, 2024, there was no allowance for credit losses related to the available for sale portfolio.

There were no sales of investment securities available for sale for the nine month period ended September 30, 2025. Proceeds from the sales of investment securities available for sale were \$46.2 million for the nine month period ended September 30, 2024. Gross proceeds from called securities totaled \$36 thousand and \$2.7 million for the nine month periods ended September 30, 2025 and 2024. Gains and losses on the sale of investment securities are recorded on the trade date and are determined using the specific identification method. The realized loss shown below for the nine month period ended September 30, 2024 resulted from the recognition of unamortized premiums on a called bond that had no pre-set call date. Gross realized gains and losses for the nine and three month periods ended September 30, 2025 and 2024 are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2025	2024	2025	2024
(dollars in thousands)				
Realized gains	\$ -	\$ -	\$ -	\$ -
Realized losses	-	(141)	-	-
	<u>\$ -</u>	<u>\$ (141)</u>	<u>\$ -</u>	<u>\$ -</u>

There were no securities transferred between the available for sale and held to maturity portfolios or other sales of held to maturity securities during the periods presented. In the future management may elect to classify securities as held to maturity based upon such considerations as the nature of the security, the Bank's ability to hold the security until maturity, and general economic conditions. The scheduled maturities of securities available for sale at September 30, 2025, were as follows:

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 5,456	\$ 5,437
Due after one year through five years	10,237	9,582
Due after five years through ten years	69,462	61,678
Due after ten years	45,995	37,796
	<u>\$ 131,150</u>	<u>\$ 114,493</u>

Maturities of mortgage-backed securities are based on contractual amounts. Actual maturity will vary as loans underlying the securities are prepaid.

Investment securities with amortized cost of approximately \$55.9 million and \$56.9 million at September 30, 2025 and December 31, 2024, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Note 4. Loans Receivable

The major components of loans in the consolidated balance sheets at September 30, 2025 and December 31, 2024 are as follows:

(dollars in thousands)	2025	2024
Real Estate Secured:		
Construction & development	\$ 69,858	\$ 68,650
Farmland	23,731	24,412
Residential	578,690	518,122
Commercial mortgage	290,434	293,151
Non-Real Estate Secured:		
Commercial & agricultural	58,050	61,187
Consumer & other	15,676	18,937
Total loans	1,036,439	984,459
Allowance for credit losses	(8,547)	(8,027)
Loans, net of allowance for credit losses	\$ 1,027,892	\$ 976,432

Included in total loans above are deferred loan fees of \$1.7 million and \$1.5 million at September 30, 2025 and December 31, 2024, respectively. Included in total loans above are deferred loan costs of \$5.8 million and \$5.2 million, at September 30, 2025 and December 31, 2024, respectively. Income from net deferred fees and costs is recognized over the lives of the respective loans as a yield adjustment. If loans repay prior to scheduled maturities any unamortized fee or cost is recognized at that time.

The Company elected to exclude accrued interest receivable from the amortized cost basis of loans. Accrued interest receivable related to loans totaled \$3.7 million at September 30, 2025 and \$3.4 million at December 31, 2024 and was reported in accrued interest receivable on the consolidated balance sheets.

As of September 30, 2025 and December 31, 2024, substantially all of the Bank's residential 1-4 family loans were pledged as collateral for borrowing lines at the FHLB.

As of September 30, 2025 and December 31, 2024, the Bank had no residential real estate loans in the process of foreclosure.

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses

Allowance for Credit Losses - Loans

The change in the allowance for credit losses for the three and nine months ended September 30, 2025, was due to the increase in loan volume and changes in the Company's forecast variables during the period ended September 30, 2025. The change in the allowance for credit losses for the three and nine months ended September 30, 2024, was due to the increase in loan volume, the loans acquired as a result of the JCB merger and changes in the Company's forecast variables during the period ended September 30, 2024. The following table summarizes the activity related to the allowance for credit losses for the three month and nine month periods ended September 30, 2025 and 2024 under the CECL methodology.

(dollars in thousands)	Construction & Development	Farmland	Residential	Commercial Mortgage	Commercial & Agricultural	Consumer & Other	Total
For the Three Months Ended September 30, 2025							
Balance, June 30, 2025	\$ 1,036	\$ 173	\$ 4,247	\$ 2,041	\$ 558	\$ 319	\$ 8,374
Charge-offs	-	-	-	-	-	(30)	(30)
Recoveries	-	-	-	1	2	6	9
Provision for credit losses	(15)	7	193	3	(32)	38	194
Balance, September 30, 2025	<u>\$ 1,021</u>	<u>\$ 180</u>	<u>\$ 4,440</u>	<u>\$ 2,045</u>	<u>\$ 528</u>	<u>\$ 333</u>	<u>\$ 8,547</u>

(dollars in thousands)	Construction & Development	Farmland	Residential	Commercial Mortgage	Commercial & Agricultural	Consumer & Other	Total
For the Three Months Ended September 30, 2024							
Balance, June 30, 2024	\$ 791	\$ 181	\$ 3,349	\$ 1,937	\$ 455	\$ 157	\$ 6,870
Merger adjustment for PCD acquired loans	45	-	148	1	-	2	196
Charge-offs	-	-	-	-	-	(22)	(22)
Recoveries	-	-	-	1	25	7	33
Provision for credit losses	115	(8)	444	(87)	(2)	248	710
Balance, September 30, 2024	<u>\$ 951</u>	<u>\$ 173</u>	<u>\$ 3,941</u>	<u>\$ 1,852</u>	<u>\$ 478</u>	<u>\$ 392</u>	<u>\$ 7,787</u>

(dollars in thousands)	Construction & Development	Farmland	Residential	Commercial Mortgage	Commercial & Agricultural	Consumer & Other	Total
For the Nine Months Ended September 30, 2025							
Balance, December 31, 2024	\$ 1,012	\$ 174	\$ 4,070	\$ 1,941	\$ 504	\$ 326	\$ 8,027
Charge-offs	-	-	(1)	-	-	(100)	(101)
Recoveries	-	-	2	3	30	31	66
Provision for credit losses	9	6	369	101	(6)	76	555
Balance, September 30, 2025	<u>\$ 1,021</u>	<u>\$ 180</u>	<u>\$ 4,440</u>	<u>\$ 2,045</u>	<u>\$ 528</u>	<u>\$ 333</u>	<u>\$ 8,547</u>

(dollars in thousands)	Construction & Development	Farmland	Residential	Commercial Mortgage	Commercial & Agricultural	Consumer & Other	Total
For the Nine Months Ended September 30, 2024							
Balance, December 31, 2023	\$ 910	\$ 154	\$ 3,167	\$ 1,902	\$ 424	\$ 182	\$ 6,739
Merger adjustment for PCD acquired loans	45	-	148	1	-	2	196
Charge-offs	-	-	-	-	(16)	(77)	(93)
Recoveries	-	-	9	3	27	19	58
Provision for credit losses	(4)	19	617	(54)	43	266	887
Balance, September 30, 2024	<u>\$ 951</u>	<u>\$ 173</u>	<u>\$ 3,941</u>	<u>\$ 1,852</u>	<u>\$ 478</u>	<u>\$ 392</u>	<u>\$ 7,787</u>

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

Credit Quality Indicators

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality of the Bank's loan portfolio. The Bank's loan ratings coincide with the "Substandard," "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered "Substandard" if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. "Substandard" assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as "Doubtful" have all the weaknesses inherent in assets classified "Substandard" with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Assets classified as "Loss" are those considered uncollectible, and of such little value that its continuance on the books is not warranted. As of September 30, 2025 and December 31, 2024, respectively, the Bank had no loans graded "Doubtful" or "Loss" included in the balance of total loans outstanding.

Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." Management also maintains a listing of loans designated "Watch". These loans represent borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk. Loans that are currently performing and are of high quality are given a loan rating of "Pass".

Loans are graded at origination and will be considered for potential downgrades as the borrower experiences financial difficulties. Loan officers meet periodically to discuss their past due credits and loan downgrades could occur at that time. Commercial relationships of over \$1.0 million are reviewed on an annual basis, and that review could result in downgrades or in some cases, upgrades. In addition, the Company engages a third-party loan review each quarter. The results of these loan reviews could result in upgrades or downgrades.

The following table presents the Company's recorded investment in loans by credit quality indicators as of September 30, 2025 and December 31, 2024:

(dollars in thousands)	Loan Grades				
	Pass	Watch	Special Mention	Substandard	Total
September 30, 2025					
Real Estate Secured:					
Construction & development	\$ 69,858	\$ -	\$ -	\$ -	\$ 69,858
Farmland	22,829	-	270	632	23,731
Residential	569,412	362	3,410	5,506	578,690
Commercial mortgage	284,604	4,283	1,172	375	290,434
Non-Real Estate Secured:					
Commercial & agricultural	57,204	581	18	247	58,050
Consumer & other	15,332	-	-	344	15,676
Total	<u>\$ 1,019,239</u>	<u>\$ 5,226</u>	<u>\$ 4,870</u>	<u>\$ 7,104</u>	<u>\$ 1,036,439</u>
December 31, 2024					
Real Estate Secured:					
Construction & development	\$ 68,459	\$ -	\$ 175	\$ 16	\$ 68,650
Farmland	23,234	111	272	795	24,412
Residential	511,943	205	2,270	3,704	518,122
Commercial mortgage	286,140	3,548	3,017	446	293,151
Non-Real Estate Secured:					
Commercial & agricultural	61,133	-	54	-	61,187
Consumer & other	18,550	-	22	365	18,937
Total	<u>\$ 969,459</u>	<u>\$ 3,864</u>	<u>\$ 5,810</u>	<u>\$ 5,326</u>	<u>\$ 984,459</u>

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

Credit Quality Indicators, continued

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of September 30, 2025:

(dollars in thousands)	Term Loans by Year of Origination						Revolving	Revolving Loans Converted To Term	Total
	2025	2024	2023	2022	2021	Prior			
Construction & development									
Pass	\$ 20,852	\$ 20,691	\$ 5,617	\$ 4,763	\$ 5,320	\$ 8,371	\$ 4,075	\$ 169	\$ 69,858
Watch	-	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total construction & development	<u>\$ 20,852</u>	<u>\$ 20,691</u>	<u>\$ 5,617</u>	<u>\$ 4,763</u>	<u>\$ 5,320</u>	<u>\$ 8,371</u>	<u>\$ 4,075</u>	<u>\$ 169</u>	<u>\$ 69,858</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Farmland									
Pass	\$ 2,921	\$ 2,287	\$ 3,313	\$ 1,728	\$ 1,248	\$ 9,361	\$ 1,971	\$ -	\$ 22,829
Watch	-	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	172	98	-	270
Substandard	-	-	-	-	-	632	-	-	632
Total farmland	<u>\$ 2,921</u>	<u>\$ 2,287</u>	<u>\$ 3,313</u>	<u>\$ 1,728</u>	<u>\$ 1,248</u>	<u>\$ 10,165</u>	<u>\$ 2,069</u>	<u>\$ -</u>	<u>\$ 23,731</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Residential									
Pass	\$ 71,538	\$ 64,879	\$ 62,259	\$ 100,091	\$ 53,680	\$ 121,187	\$ 95,241	\$ 537	\$ 569,412
Watch	99	-	64	-	-	199	-	-	362
Special Mention	-	218	-	854	225	2,113	-	-	3,410
Substandard	-	-	867	2,430	57	352	1,800	-	5,506
Total residential	<u>\$ 71,637</u>	<u>\$ 65,097</u>	<u>\$ 63,190</u>	<u>\$ 103,375</u>	<u>\$ 53,962</u>	<u>\$ 123,851</u>	<u>\$ 97,041</u>	<u>\$ 537</u>	<u>\$ 578,690</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>
Commercial mortgage									
Pass	\$ 25,277	\$ 28,983	\$ 39,050	\$ 49,549	\$ 41,432	\$ 89,221	\$ 10,878	\$ 214	\$ 284,604
Watch	-	-	-	1,977	-	2,306	-	-	4,283
Special Mention	-	-	-	-	422	750	-	-	1,172
Substandard	-	23	-	-	71	281	-	-	375
Total commercial mortgage	<u>\$ 25,277</u>	<u>\$ 29,006</u>	<u>\$ 39,050</u>	<u>\$ 51,526</u>	<u>\$ 41,925</u>	<u>\$ 92,558</u>	<u>\$ 10,878</u>	<u>\$ 214</u>	<u>\$ 290,434</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commercial & agricultural									
Pass	\$ 14,903	\$ 11,084	\$ 7,148	\$ 4,386	\$ 2,228	\$ 1,968	\$ 15,206	\$ 281	\$ 57,204
Watch	-	-	-	-	-	-	581	-	581
Special Mention	-	-	-	-	5	13	-	-	18
Substandard	-	57	39	-	21	130	-	-	247
Total commercial & agricultural	<u>\$ 14,903</u>	<u>\$ 11,141</u>	<u>\$ 7,187</u>	<u>\$ 4,386</u>	<u>\$ 2,254</u>	<u>\$ 2,111</u>	<u>\$ 15,787</u>	<u>\$ 281</u>	<u>\$ 58,050</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Consumer & other									
Pass	\$ 4,880	\$ 2,787	\$ 1,469	\$ 1,588	\$ 1,259	\$ 2,596	\$ 753	\$ -	\$ 15,332
Watch	-	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	8	8	-	-	291	37	-	-	344
Total consumer & other	<u>\$ 4,888</u>	<u>\$ 2,795</u>	<u>\$ 1,469</u>	<u>\$ 1,588</u>	<u>\$ 1,550</u>	<u>\$ 2,633</u>	<u>\$ 753</u>	<u>\$ -</u>	<u>\$ 15,676</u>
Current period gross write-offs	<u>\$ 13</u>	<u>\$ 34</u>	<u>\$ 24</u>	<u>\$ 8</u>	<u>\$ 3</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100</u>
Total loans									
Pass	\$ 140,371	\$ 130,711	\$ 118,856	\$ 162,105	\$ 105,167	\$ 232,704	\$ 128,124	\$ 1,201	\$ 1,019,239
Watch	99	-	64	1,977	-	2,505	581	-	5,226
Special Mention	-	218	-	854	652	3,048	98	-	4,870
Substandard	8	88	906	2,430	440	1,432	1,800	-	7,104
Total loans	<u>\$ 140,478</u>	<u>\$ 131,017</u>	<u>\$ 119,826</u>	<u>\$ 167,366</u>	<u>\$ 106,259</u>	<u>\$ 239,689</u>	<u>\$ 130,603</u>	<u>\$ 1,201</u>	<u>\$ 1,036,439</u>
Total current period gross write-offs	<u>\$ 13</u>	<u>\$ 34</u>	<u>\$ 24</u>	<u>\$ 8</u>	<u>\$ 3</u>	<u>\$ 19</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101</u>

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

Credit Quality Indicators, continued

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2024:

(dollars in thousands)	Term Loans by Year of Origination						Revolving	Revolving Loans Converted To Term	Total
	2024	2023	2022	2021	2020	Prior			
Construction & development									
Pass	\$ 30,338	\$ 14,211	\$ 5,520	\$ 5,753	\$ 1,532	\$ 7,477	\$ 3,628	\$ -	\$ 68,459
Watch	-	-	-	-	-	-	-	-	-
Special Mention	-	175	-	-	-	-	-	-	175
Substandard	-	-	-	-	-	-	16	-	16
Total construction & development	<u>\$ 30,338</u>	<u>\$ 14,386</u>	<u>\$ 5,520</u>	<u>\$ 5,753</u>	<u>\$ 1,532</u>	<u>\$ 7,477</u>	<u>\$ 3,644</u>	<u>\$ -</u>	<u>\$ 68,650</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Farmland									
Pass	\$ 2,552	\$ 3,731	\$ 1,900	\$ 1,387	\$ 2,447	\$ 9,452	\$ 1,765	\$ -	\$ 23,234
Watch	-	-	-	-	-	111	-	-	111
Special Mention	-	-	-	-	-	172	100	-	272
Substandard	-	-	-	-	-	795	-	-	795
Total farmland	<u>\$ 2,552</u>	<u>\$ 3,731</u>	<u>\$ 1,900</u>	<u>\$ 1,387</u>	<u>\$ 2,447</u>	<u>\$ 10,530</u>	<u>\$ 1,865</u>	<u>\$ -</u>	<u>\$ 24,412</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Residential									
Pass	\$ 61,276	\$ 71,168	\$ 106,237	\$ 57,887	\$ 49,039	\$ 85,197	\$ 80,211	\$ 928	\$ 511,943
Watch	-	-	-	-	205	-	-	-	205
Special Mention	219	-	1,148	239	230	434	-	-	2,270
Substandard	-	840	2,270	-	-	594	-	-	3,704
Total residential	<u>\$ 61,495</u>	<u>\$ 72,008</u>	<u>\$ 109,655</u>	<u>\$ 58,126</u>	<u>\$ 49,474</u>	<u>\$ 86,225</u>	<u>\$ 80,211</u>	<u>\$ 928</u>	<u>\$ 518,122</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commercial mortgage									
Pass	\$ 36,499	\$ 42,952	\$ 48,518	\$ 47,717	\$ 36,479	\$ 68,699	\$ 5,276	\$ -	\$ 286,140
Watch	-	-	-	1,413	2,024	67	44	-	3,548
Special Mention	-	-	2,615	-	-	402	-	-	3,017
Substandard	-	-	-	-	-	446	-	-	446
Total residential	<u>\$ 36,499</u>	<u>\$ 42,952</u>	<u>\$ 51,133</u>	<u>\$ 49,130</u>	<u>\$ 38,503</u>	<u>\$ 69,614</u>	<u>\$ 5,320</u>	<u>\$ -</u>	<u>\$ 293,151</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commercial & agricultural									
Pass	\$ 15,252	\$ 11,704	\$ 5,920	\$ 3,185	\$ 926	\$ 1,853	\$ 22,261	\$ 32	\$ 61,133
Watch	-	-	-	-	-	-	-	-	-
Special Mention	-	-	36	-	-	18	-	-	54
Substandard	-	-	-	-	-	-	-	-	-
Total commercial & agricultural	<u>\$ 15,252</u>	<u>\$ 11,704</u>	<u>\$ 5,956</u>	<u>\$ 3,185</u>	<u>\$ 926</u>	<u>\$ 1,871</u>	<u>\$ 22,261</u>	<u>\$ 32</u>	<u>\$ 61,187</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16</u>
Consumer & other									
Pass	\$ 7,446	\$ 3,365	\$ 2,200	\$ 1,726	\$ 103	\$ 2,924	\$ 786	\$ -	\$ 18,550
Watch	-	-	-	-	-	-	-	-	-
Special Mention	-	16	-	-	-	-	6	-	22
Substandard	16	2	2	308	-	37	-	-	365
Total consumer & other	<u>\$ 7,462</u>	<u>\$ 3,383</u>	<u>\$ 2,202</u>	<u>\$ 2,034</u>	<u>\$ 103</u>	<u>\$ 2,961</u>	<u>\$ 792</u>	<u>\$ -</u>	<u>\$ 18,937</u>
Current period gross write-offs	<u>\$ 18</u>	<u>\$ 46</u>	<u>\$ 12</u>	<u>\$ 8</u>	<u>\$ 4</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114</u>
Total loans									
Pass	\$ 153,363	\$ 147,131	\$ 170,295	\$ 117,655	\$ 90,526	\$ 175,602	\$ 113,927	\$ 960	\$ 969,459
Watch	-	-	-	1,413	2,229	178	44	-	3,864
Special Mention	219	191	3,799	239	230	1,026	106	-	5,810
Substandard	16	842	2,272	308	-	1,872	16	-	5,326
Total loans	<u>\$ 153,598</u>	<u>\$ 148,164</u>	<u>\$ 176,366</u>	<u>\$ 119,615</u>	<u>\$ 92,985</u>	<u>\$ 178,678</u>	<u>\$ 114,093</u>	<u>\$ 960</u>	<u>\$ 984,459</u>
Total Current period gross write-offs	<u>\$ 18</u>	<u>\$ 62</u>	<u>\$ 12</u>	<u>\$ 8</u>	<u>\$ 4</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130</u>

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

Nonaccrual Loans

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated:

(dollars in thousands)	September 30, 2025		
	Nonaccrual Loans with no Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Construction & development	\$ -	\$ -	\$ -
Farmland	-	63	63
Residential	840	428	1,268
Commercial mortgage	257	117	374
Commercial & agricultural	-	200	200
Consumer & other	-	336	336
Total	<u>\$ 1,097</u>	<u>\$ 1,144</u>	<u>\$ 2,241</u>

(dollars in thousands)	December 31, 2024		
	Nonaccrual Loans with no Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Construction & development	\$ -	\$ -	\$ -
Farmland	-	70	70
Residential	840	848	1,688
Commercial mortgage	293	153	446
Commercial & agricultural	-	-	-
Consumer & other	-	359	359
Total	<u>\$ 1,133</u>	<u>\$ 1,430</u>	<u>\$ 2,563</u>

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

Nonaccrual Loans, continued

The following table represents the accrued interest receivables written off on nonaccrual loans by reversing interest income during the three and nine months ended September 30, 2025 and September 30, 2024:

(dollars in thousands)	For the Three Months Ended September 30, 2025	For the Three Months Ended September 30, 2024
Construction & development	\$ -	\$ -
Farmland	-	-
Residential	14	-
Commercial mortgage	1	-
Commercial & agricultural	1	-
Consumer & other	-	1
Total	<u>\$ 16</u>	<u>\$ 1</u>

(dollars in thousands)	For the Nine Months Ended September 30, 2025	For the Nine Months Ended September 30, 2024
Construction & development	\$ -	\$ -
Farmland	-	-
Residential	14	3
Commercial mortgage	1	-
Commercial & agricultural	1	-
Consumer & other	2	1
Total	<u>\$ 18</u>	<u>\$ 4</u>

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Note 5. Allowance for Credit Losses, continued

Aging Analysis

The following table presents an aging analysis of past due loans by category as of September 30, 2025:

(dollars in thousands)	Accruing			Nonaccrual Loans	Current	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due			
September 30, 2025						
Real Estate Secured:						
Construction & development	\$ 43	\$ -	\$ -	\$ -	\$ 69,815	\$ 69,858
Farmland	-	-	-	63	23,668	23,731
Residential	722	268	-	1,268	576,432	578,690
Commercial mortgage	-	-	-	374	290,060	290,434
Non-Real Estate Secured:						
Commercial & agricultural	-	-	-	200	57,850	58,050
Consumer & other	7	20	-	336	15,313	15,676
Total	\$ 772	\$ 288	\$ -	\$ 2,241	\$ 1,033,138	\$ 1,036,439

The following table presents an aging analysis of past due loans by category as of December 31, 2024:

(dollars in thousands)	Accruing			Nonaccrual Loans	Current	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due			
<u>December 31, 2024</u>						
Real Estate Secured:						
Construction & development	\$ 134	\$ -	\$ -	\$ -	\$ 68,516	\$ 68,650
Farmland	-	-	-	70	24,342	24,412
Residential	97	116	-	1,688	516,221	518,122
Commercial mortgage	-	-	-	446	292,705	293,151
Non-Real Estate Secured:						
Commercial & agricultural	-	-	-	-	61,187	61,187
Consumer & other	46	23	-	359	18,509	18,937
Total	\$ 277	\$ 139	\$ -	\$ 2,563	\$ 981,480	\$ 984,459

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

Collateral Dependent Loans

Loans that do not share risk characteristics within their respective loan pools are individually evaluated. The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral dependent loans:

- Construction and development loans include both commercial and consumer loans. Commercial loans are typically secured by first liens on raw land acquired for the construction of owner occupied commercial real estate or non-owner occupied commercial real estate. Consumer loans are typically secured by a first lien on raw land acquired for the construction of residential homes for which a binding sales contract exists.
- Commercial real estate loans can be secured by either owner occupied commercial real estate or non-owner occupied investment commercial real estate. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Home equity lines of credit are generally secured by second mortgages on residential real estate property.
- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans as of September 30, 2025 and December 31, 2024:

(dollars in thousands)	2025	2024
Construction & development	\$ -	\$ -
Farmland	-	-
Residential	5,067	3,105
Commercial mortgage	258	292
Commercial & agricultural	-	-
Consumer & other	-	-
Total Loans	<u>\$ 5,325</u>	<u>\$ 3,397</u>

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

Modifications Made to Borrowers Experiencing Financial Difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a lifetime probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. There were no commitments to lend additional funds to borrowers experiencing financial difficulty as of September 30, 2025 and December 31, 2024.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness or interest rate reduction, may be granted.

There were no loans modified to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2025. There were no loans modified to borrowers experiencing financial difficulty during the three months ended September 30, 2024. The following table shows the amortized cost basis of loans modified to borrowers experiencing financial difficulty for the nine months ended September 30, 2024, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

Nine Months Ended September 30, 2024 (dollars in thousands)	Term Extension		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Residential	\$ 23	0.01%	Added an average of 11.92 years to the life of the loan, which resulted in reduced payment.
Total	<u>\$ 23</u>		

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. There were no loans that had a payment default during the period and were modified in the 12 months before default to borrowers experiencing financial difficulty.

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months as of September 30, 2025 and September 30, 2024:

(dollars in thousands)	Payment Status (Amortized Cost Basis)		
	Current	30-89 Days Past Due	90+ Days Past Due
<u>September 30, 2025</u>			
Construction & development	\$ -	\$ -	\$ -
Farmland	-	-	-
Residential	-	-	-
Commercial mortgage	-	-	-
Commercial & agricultural	-	-	-
Consumer & other	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>September 30, 2024</u>			
Construction & development	\$ -	\$ -	\$ -
Farmland	-	-	-
Residential	608	-	-
Commercial mortgage	-	-	-
Commercial & agricultural	-	-	-
Consumer & other	376	-	-
Total	<u>\$ 984</u>	<u>\$ -</u>	<u>\$ -</u>

Skyline Bankshares, Inc. and Subsidiary
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Note 5. Allowance for Credit Losses, continued

Unfunded Commitments

The Company maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheets. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the three and nine months ended September 30, 2025 and September 30, 2024:

(dollars in thousands)	Total Allowance for Credit Losses – Unfunded Commitments
<u>For the Three Months Ended September 30, 2025</u>	
Balance, June 30, 2025	\$ 472
(Recovery of) Provision for credit losses - unfunded commitments	(5)
Balance, September 30, 2025	<u>\$ 467</u>
<u>For the Three Months Ended September 30, 2024</u>	
Balance, June 30, 2024	\$ 389
Provision for credit losses - unfunded commitments	28
Balance, September 30, 2024	<u>\$ 417</u>
<u>For the Nine Months Ended September 30, 2025</u>	
Balance, December 31, 2024	\$ 371
Provision for credit losses - unfunded commitments	96
Balance, September 30, 2025	<u>\$ 467</u>
<u>For the Nine Months Ended September 30, 2024</u>	
Balance, December 31, 2023	\$ 402
Provision for credit losses - unfunded commitments	15
Balance, September 30, 2024	<u>\$ 417</u>

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Note 6. Deposits

The following table presents the composition of deposits at September 30, 2025 and December 31, 2024:

(dollars in thousands)	September 30, 2025	December 31, 2024
Interest-bearing deposits:		
Interest-bearing demand deposit accounts	\$ 153,666	\$ 148,795
Money market	104,744	85,409
Savings	170,832	176,310
Time deposits	377,021	343,771
Total interest-bearing deposits	806,263	754,285
Noninterest-bearing deposits	363,910	337,918
Total deposits	<u>\$ 1,170,173</u>	<u>\$ 1,092,203</u>

The aggregate amount of time deposits in denominations of more than \$250 thousand at September 30, 2025 and December 31, 2024 was \$128.5 million, and \$103.7 million, respectively.

Note 7. Goodwill and Intangible Assets

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected November 1 as the date to perform the annual impairment test. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

An analysis of goodwill during the nine month period ended September 30, 2025 and for the year ended December 31, 2024 is as follows:

(dollars in thousands)	September 30, 2025	December 31, 2024
Beginning of year	\$ 7,900	\$ 3,257
Acquired goodwill as a result of JCB merger	-	4,643
Impairment	-	-
End of the period	<u>\$ 7,900</u>	<u>\$ 7,900</u>

Intangible Assets

The following table presents the activity for the Company's core deposit intangible assets, which are the only identifiable intangible assets subject to amortization. Core deposit intangibles during the nine month period ended September 30, 2025 and for the year ended December 31, 2024 are as follows:

(dollars in thousands)	September 30, 2025	December 31, 2024
Balance at beginning of year, net of accumulated amortization	\$ 3,815	\$ 917
Core deposit intangible as result of JCB merger	-	3,380
Amortization expense	(598)	(482)
Net book value	<u>\$ 3,217</u>	<u>\$ 3,815</u>

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Note 7. Goodwill and Intangible Assets, continued

Intangible Assets, continued

Aggregate amortization expense was \$598 thousand and \$266 thousand for the nine month periods ended September 30, 2025 and 2024, respectively. Aggregate amortization expense was \$178 thousand and \$107 thousand for the three month periods ended September 30, 2025 and 2024, respectively.

The following table presents the estimated amortization expense of the core deposit intangible over the remaining useful life:

(dollars in thousands)

Three months ending December 31, 2025	\$	173
For the year ending December 31, 2026		647
For the year ending December 31, 2027		565
For the year ending December 31, 2028		484
For the year ending December 31, 2029		406
Thereafter		942
Total	\$	<u>3,217</u>

Note 8. Short-Term Borrowings

At September 30, 2025, the Bank had a \$25.0 million FHLB advance outstanding at a rate of 4.30%, with a maturity date of October 10, 2025, that was classified as short-term.

At December 31, 2024, the Bank had a \$15.0 million FHLB advance outstanding at a rate of 5.00%, with a maturity date of January 9, 2025, that was classified as short-term. Also at December 31, 2024, the Bank had a \$5.0 million FHLB advance outstanding at a rate of 4.68%, with a maturity date of January 9, 2025, that was classified as short-term.

On September 9, 2024, the Company entered into a \$5.0 million unsecured revolving line of credit, with a maturity date of September 9, 2025. On September 5, 2025, this \$5.0 million unsecured revolving line of credit was renewed, and as a result the maturity date was changed to September 9, 2026. Interest on the line of credit is variable and is set at the prime rate. At September 30, 2025, \$1.5 million was outstanding under this revolving line of credit at a rate of 7.25% and was classified as short-term debt. At December 31, 2024, \$5.0 million was outstanding under this revolving line of credit at a rate of 7.50% and was classified as short-term debt.

At September 30, 2025, the Bank had established unsecured lines of credit of approximately \$73.0 million with correspondent banks to provide additional liquidity if, and as needed. There was nothing outstanding under these lines of credit as of September 30, 2025. At December 31, 2024, the Bank had \$4.3 million outstanding under these lines of credit. In addition, the Bank has the ability to borrow up to approximately \$295.6 million from the FHLB, subject to the pledging of collateral.

Note 9. Long-Term Borrowings

At September 30, 2025 and December 31, 2024, neither the Company nor the Bank had no borrowings outstanding classified as long-term.

Skyline Bankshares, Inc. and Subsidiary
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Note 10. Interest Rate Swap Contracts

On April 4, 2025 the Bank entered into an International Swap and Derivative Association (“ISDA”) interest rate swap contract of \$25.0 million with a financial institution (“counterparty”) to manage its exposure to interest rate changes associated with \$25.0 million of 1-month fixed rate FHLB borrowings (representing the notional amount of the swap contract). The swap contract qualifies as a cash flow hedge and, accordingly, the Company records the fair value of the contract on its consolidated balance sheet as an asset or liability, with an offset to accumulated other comprehensive income (AOCI), net of income tax impacts, and with changes reflected in other comprehensive income. The swap contract matures on April 10, 2027.

The effect of the swap contract was to limit the interest rate exposure on the FHLB borrowings to a fixed rate (3.4725%) versus the USD-SOFR-COMPOUND interest rate. In accordance with the swap agreement, the interest charge was calculated based upon the USD-SOFR-COMPOUND and the fixed rate. If interest as calculated was greater based on the USD-SOFR-COMPOUND, the counterparty paid the difference to the Bank. However, if interest as calculated was greater based on the fixed rates, the Bank paid the difference to the counterparty.

Depending on the fluctuations in the USD-SOFR-COMPOUND, the Bank’s interest rate exposure and its related impact on interest expense and net cash flow could increase or decrease. The fair value of the interest rate swap agreement was the estimated amount the Bank would receive or pay to terminate the agreement at a particular point in time, considering current interest rates and the creditworthiness of the counterparty. The estimated fair value of the interest rate swap contract was provided by a third-party valuation expert.

As of September 30, 2025, the fair value of the swap contract was estimated to be an liability of approximately \$18 thousand, which was reflected as other liabilities, on the Company’s accompanying consolidated balance sheet. An unrealized loss on the swap contract of approximately \$18 thousand at September 30, 2025, net of income tax effects, was recorded in AOCI on the consolidated balance sheets at September 30, 2025.

This financial instrument involves counterparty credit exposure. The counterparty for the interest rate exchange is a major financial institution that meets the Company’s criteria for financial stability and creditworthiness.

The swap agreement resulted in a credit to the Company’s interest expense on borrowings of approximately \$55 thousand for the three month period ended September 30, 2025 and \$103 thousand for the nine month period ended September 30, 2025.

Skyline Bankshares, Inc. and Subsidiary
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Note 11. Commitments and Contingencies

Litigation

In the normal course of business, the Bank is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the consolidated financial statements.

Financial Instruments with Off-Balance Sheet Risk

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

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments. A summary of the Bank's commitments at September 30, 2025 and December 31, 2024 is as follows:

(dollars in thousands)	September 30, 2025	December 31, 2024
Commitments to extend credit	\$ 227,862	\$ 210,610
Standby letters of credit	2,281	1,398
	<u>\$ 230,143</u>	<u>\$ 212,008</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

Concentrations of Credit Risk

Substantially all of the Bank's loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Bank's market area and such customers are generally depositors of the Bank. Investments in state and municipal securities involve governmental entities within and outside the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit are granted primarily to commercial borrowers. The Bank's primary focus is toward small business and consumer transactions, and accordingly, it does not have a significant number of credits to any single borrower or group of related borrowers. The Bank has cash and cash equivalents on deposit with financial institutions which exceed federally insured limits.

Skyline Bankshares, Inc. and Subsidiary
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Note 12. Financial Instruments

FASB ASC 825, “Financial Instruments”, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value of future cash flows or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. FASB ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company’s financial instruments not recorded at fair value on a recurring basis as of September 30, 2025 and December 31, 2024. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as FHLB and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of the fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

For loans, the carrying amount is net of unearned income and the allowance for credit losses. In accordance with ASU No. 2016-01, the fair value of loans as of September 30, 2025 and December 31, 2024, was measured using an exit price notion.

(dollars in thousands)	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2025					
Financial Instruments – Assets					
Net Loans	\$ 1,027,892	\$ 1,004,544	\$ -	\$ -	\$ 1,004,544
Financial Instruments – Liabilities					
Time Deposits	377,021	374,585	-	374,585	-
FHLB Advances	25,000	24,999	-	24,999	-
December 31, 2024					
Financial Instruments – Assets					
Net Loans	\$ 976,432	\$ 944,633	\$ -	\$ -	\$ 944,633
Financial Instruments – Liabilities					
Time Deposits	343,771	342,239	-	342,239	-
FHLB Advances	20,000	19,998	-	19,998	-

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans or foreclosed assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Note 12. Financial Instruments, continued

Fair Value Hierarchy

Under FASB ASC 820, “Fair Value Measurements and Disclosures”, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

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

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Individually Evaluated Loans

Individually evaluated loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are evaluated for potential specific reserves and adjusted, if a shortfall exists, to fair value less costs to sell. Fair value is measured based on the value of the underlying collateral securing the loan if repayment is expected solely from the sale or operation of the collateral or present value of estimated future cash flows discounted at the loan’s contractual interest rate if the loan is not determined to be collateral dependent. All loans individually evaluated are classified as Level 3 in the fair value hierarchy.

Fair value for individually evaluated loans is determined using several methods. Generally, the fair value of real estate is determined based on appraisals by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. These routine adjustments are made to adjust the value of a specific property relative to comparable properties for variations in qualities such as location, size, and income production capacity relative to the subject property of the appraisal. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

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Note 12. Financial Instruments, continued

Interest Rate Swap (Cash Flow Hedge)

The fair values of interest rate swaps (cash flow hedge) arrangements are estimated by the Company using a third-party valuation expert in which the valuation process includes the use of quoted prices for similar assets and liabilities in active markets, and the inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument and are therefore deemed Level 2 assets.

Other Real Estate Owned

Other real estate owned is adjusted to fair value upon transfer of the loans, or former bank premises, to other real estate owned. Subsequently, other real estate owned is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price the Company records the other real estate owned as nonrecurring Level 2. When the fair value of the collateral is based on either an external or internal appraisal and there is no observable market price, the Company records the other real estate owned as nonrecurring Level 3. As a result of the JCB merger, there was one property valued at \$140 thousand in other real estate owned at December 31, 2024 and there was no other real estate owned as of September 30, 2025.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

(dollars in thousands)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>September 30, 2025</u>				
Assets:				
Investment securities available for sale				
U.S. Government agencies	\$ 22,733	\$ -	\$ 22,733	\$ -
Mortgage-backed securities	52,515	-	52,515	-
State and municipal securities	39,245	-	39,245	-
Total investment securities at fair value	<u>114,493</u>	<u>-</u>	<u>114,493</u>	<u>-</u>
Total assets at fair value	<u>\$ 114,493</u>	<u>\$ -</u>	<u>\$ 114,493</u>	<u>\$ -</u>
Liabilities:				
Interest rate swap (cash flow hedge)	\$ 18	\$ -	\$ 18	\$ -
Total liabilities at fair value	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ 18</u>	<u>\$ -</u>
<u>December 31, 2024</u>				
Assets:				
Investment securities available for sale				
U.S. Treasury securities	\$ 2,488	\$ -	\$ 2,488	\$ -
U.S. Government agencies	21,505	-	21,505	-
Mortgage-backed securities	55,538	-	55,538	-
Corporate securities	1,491	-	1,491	-
State and municipal securities	<u>37,265</u>	<u>-</u>	<u>37,265</u>	<u>-</u>
Total assets at fair value	<u>\$ 118,287</u>	<u>\$ -</u>	<u>\$ 118,287</u>	<u>\$ -</u>

No liabilities were recorded at fair value on a recurring basis as of December 31, 2024. There were no transfers between levels during the nine and three month period ended September 30, 2025 and the year ended December 31, 2024.

Skyline Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Note 12. Financial Instruments, continued

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets and liabilities that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. No liabilities were recorded at fair value on a nonrecurring basis at September 30, 2025 and December 31, 2024. Assets measured at fair value on a nonrecurring basis are included in the table below.

(dollars in thousands)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
September 30, 2025				
Individually evaluated loans	\$ 6,200	\$ -	-	\$ 6,200
Other real estate owned	-	\$ -	-	-
Total assets at fair value	<u>\$ 6,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,200</u>

(dollars in thousands)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2024				
Individually evaluated loans	\$ 4,626	\$ -	-	\$ 4,626
Other real estate owned	140	\$ -	-	140
Total assets at fair value	<u>\$ 4,766</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,766</u>

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of September 30, 2025 and December 31, 2024, the significant unobservable inputs used in the fair value measurements were as follows:

	<u>Fair Value at September 30, 2025</u>	<u>Fair Value at December 31, 2024</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>General Range of Significant Unobservable Input Values</u>
Individually Evaluated Loans	\$ 6,200	\$ 4,626	Appraised Value/Discounted Cash Flows/Market Value of Note	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0 – 10%
Other Real Estate Owned	\$ -	\$ 140	Appraised Value/Comparable Sales/Other Estimates from Independent Sources	Discounts to reflect current market conditions and estimated costs to sell	0 – 10%

Skyline Bankshares, Inc. and Subsidiary
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Note 13. Capital Requirements

The Company meets eligibility criteria of a small bank holding company in accordance with the Federal Reserve Small Bank Holding Company Policy Statement, and is not obligated to report consolidated regulatory capital. The Bank's actual capital amounts and ratios are presented in the following table as of September 30, 2025 and December 31, 2024, respectively. These ratios comply with Federal Reserve rules to align with the Basel III Capital requirements effective January 1, 2015.

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>September 30, 2025</u>						
Total Capital (to risk weighted assets)	\$ 114,737	11.40%	\$ 80,551	8.00%	\$ 100,689	10.00%
Tier 1 Capital (to risk weighted assets)	\$ 105,795	10.51%	\$ 60,413	6.00%	\$ 80,551	8.00%
Common Equity Tier 1 (to risk weighted assets)	\$ 105,795	10.51%	\$ 45,310	4.50%	\$ 65,448	6.50%
Tier 1 Capital (to average total assets)	\$ 105,795	8.14%	\$ 51,989	4.00%	\$ 64,986	5.00%
<u>December 31, 2024</u>						
Total Capital (to risk weighted assets)	\$ 107,941	11.19%	\$ 77,199	8.00%	\$ 96,499	10.00%
Tier 1 Capital (to risk weighted assets)	\$ 99,740	10.34%	\$ 57,900	6.00%	\$ 77,199	8.00%
Common Equity Tier 1 (to risk weighted assets)	\$ 99,740	10.34%	\$ 43,425	4.50%	\$ 62,725	6.50%
Tier 1 Capital (to average total assets)	\$ 99,740	8.17%	\$ 48,838	4.00%	\$ 61,047	5.00%

On September 17, 2019 the Federal Deposit Insurance Corporation finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio ("CBLR")) framework. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

In order to qualify for the CBLR framework, a community banking organization must have a Tier 1 leverage ratio of greater than 9.00%, less than \$10.0 billion in total consolidated assets, and limited amounts of off-balance sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the prompt corrective action regulations and will not be required to report or calculated risk-based capital.

The CBLR framework was available for banks to use in their September 30, 2025 Call Report. At this time the Company has elected not to opt into the CBLR framework for the Bank, but may opt into the CBLR framework in the future.

Skyline Bankshares, Inc. and Subsidiary
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Note 14. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

On November 3, 2025 the Bank terminated the ISDA interest rate swap contract of \$25.0 million entered into on April 4, 2025. As a result of this termination the Bank paid a termination fee of \$10 thousand to the counterparty. For more information regarding the ISDA interest rate swap contract refer to Note 10. Interest Rate Swap Contracts in the Notes to Consolidated Financial Statements above.

Management has reviewed the events occurring through the date the consolidated financial statements were issued and no additional subsequent events occurred requiring accrual or disclosure.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion provides information about the major components of the results of operations and financial condition of the Company. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2024.

As discussed in Note 1 in the Notes to Consolidated Financial Statements above, the Company and JCB merged on September 1, 2024, with the Company as the surviving corporation. For accounting purposes, the Company is considered the acquiror and JCB is considered the acquiree in the transaction. As such, all information contained herein as of and for periods prior to September 1, 2024, reflects the operations of the Company prior to the merger.

Critical Accounting Policies

For a discussion of the Company's critical accounting policies, including its allowance for credit losses and asset impairment judgments, see Note 1 in the Notes to Consolidated Financial Statements above, and in the Company's Annual Report on Form 10-K for the year ended December 31, 2024.

Executive Summary

- In connection with the acquisition of JCB, effective September 1, 2024, the Company acquired \$154.1 million in assets at fair value, including \$87.2 million in loans. The Company also assumed \$133.8 million of liabilities at fair value, including \$125.3 million of total deposits with a core deposit intangible asset recorded of \$3.4 million, and goodwill of \$4.6 million.
- Net income was \$4.1 million, or \$0.73 per share, for the third quarter of 2025, compared to \$1.1 million, or \$0.19 per share, for the third quarter of 2024.
- NIM was 4.27% for the third and second quarters of 2025 and 3.78% in the third quarter of 2024.
- Total assets increased \$88.9 million, or 7.30%, to \$1.31 billion at September 30, 2025 from \$1.22 billion at December 31, 2024.
- Net loans were \$1.03 billion at September 30, 2025, an increase of \$51.5 million, or 5.27%, when compared to \$976.4 million at December 31, 2024.
- Total deposits were \$1.17 billion at September 30, 2025, an increase of \$78.0 million, or 7.14%, from \$1.09 billion at December 31, 2024.
- Book value increased from \$15.69 per share at December 31, 2024 to \$18.03 per share at September 30, 2025.
- Third quarter 2025 earnings represented an annualized return on average assets ("ROAA") of 1.25% and an annualized return on average equity ("ROAE") of 16.13%, compared to 0.37% and 4.82%, respectively, for the same period last year.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Results of Operations for the Three Months ended September 30, 2025 and 2024

Net interest income after provision for credit losses in the third quarter of 2025 was \$12.7 million, compared to \$9.2 million in the third quarter of 2024, reflecting a decrease in the provision for credit losses of \$549 thousand in the quarterly comparison. Total interest income was \$16.9 million in the third quarter of 2025, representing an increase of \$3.2 million in comparison to the \$13.7 million in the third quarter of 2024. Interest income on loans increased in the quarterly comparison by \$3.2 million, primarily due to organic loan growth, and the addition of loan balances from the JCB acquisition. Management anticipates that this loan growth will continue to have a positive impact on both earning assets and loan yields. Interest expense on deposits increased by \$288 thousand in the quarterly comparison, primarily due to an increase in interest-bearing deposits. Management anticipates that interest expense on deposits could increase in the near term as competitive pressures for deposits continues throughout the Bank's footprint. Interest on borrowings decreased by \$86 thousand during the third quarter of 2025 due to a decrease in borrowings of \$11.0 million during the quarter.

Third quarter 2025 noninterest income was \$2.0 million compared with \$1.9 million in the third quarter of 2024. The increase of \$110 thousand in the quarter over quarter comparison was primarily due to an increase in service charges and fees of \$163 thousand offset by a decrease of \$56 thousand in mortgage origination fees.

Noninterest expenses in the third quarters of 2025 and 2024 were comparable at \$9.6 million. Salary and benefits increased by \$462 thousand in the quarterly comparison due to the increase in employees resulting from the JCB acquisition, combined with routine personnel additions and salary adjustments, as well as increased benefit costs. Data processing increased by \$120 thousand in the quarterly comparisons primarily due to the JCB acquisition. FDIC assessments increased by \$88 thousand due to increased deposit levels from the JCB acquisition and organic deposit growth. Core deposit intangible amortization increased by \$71 thousand in the quarterly comparison as a result of the JCB acquisition. Merger related expenses related to the acquisition of Johnson County Bank were \$1.1 million for the third quarter of 2024.

Net income before taxes increased by \$3.7 million in the quarterly comparison, causing an increase in income tax expense of \$660 thousand.

Results of Operations for the Nine Months ended September 30, 2025 and 2024

For the first nine months of 2025, net interest income after provision for credit losses was \$36.4 million compared to \$27.0 million for the first nine months of 2024. Interest income increased by \$10.5 million, primarily due to an increase of \$10.6 million in interest income on loans, which was primarily due to organic loan growth, and the addition of loan balances from the JCB acquisition. Interest expense on deposits increased by \$1.4 million for the nine months ended September 30, 2025 compared to the same period last year. As previously discussed, this is a reflection of the increased interest-bearing deposit balances in the nine month comparison. Interest on borrowings decreased by \$71 thousand in the nine month comparison.

For the nine months ended September 30, 2025 and 2024, noninterest income was \$5.6 million and \$5.2 million, respectively. Included in noninterest income for the first nine months of 2025 was \$60 thousand from life insurance contracts. Included in noninterest income for the first nine months of 2024 was \$221 thousand from life insurance contracts and a net realized security loss of \$141 thousand. The net security loss resulted from the recognition of unamortized premiums on a called bond. Excluding these items, noninterest income increased by \$448 thousand in the year over year comparison, primarily because of an increase in service charges and fees of \$432 thousand.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations, continued

Results of Operations for the Nine Months ended September 30, 2025 and 2024, continued

compared to the same period in 2024, primarily due to employee cost and cost increases associated with the JCB acquisition discussed above. Salary and benefit cost increased by \$1.1 million due to the increase in employees resulting from the JCB acquisition, combined with routine personnel additions and salary adjustments, as well as increased benefit costs. Occupancy and equipment expenses increased by \$158 thousand, and data processing increased by \$506 thousand from the first nine months of 2024 to 2025. FDIC assessments increased by \$284 thousand and the core deposit intangible amortization increased by \$332 thousand. Merger related expenses related to the acquisition of Johnson County Bank were \$1.5 million for the first nine months of 2024.

In the nine month comparison, net income before taxes increased by \$8.2 million, resulting in an increase in income tax expense of \$1.7 million.

Financial Condition

Total assets increased by \$88.9 million, or 7.30%, to \$1.31 billion at September 30, 2025 from \$1.22 billion at December 31, 2024. The increase in total assets during the first nine months of 2025 can be primarily attributed to loan growth of \$52.0 million funded by deposit growth of \$78.0 million.

Total loans increased by \$52.0 million, or 5.28%, to \$1.04 billion at September 30, 2025 from \$984.5 million at December 31, 2024. Total loans increased by \$83.3 million, or 8.74%, when compared to \$953.1 million at September 30, 2024.

Asset quality has remained strong, with a ratio of nonperforming loans to total loans of 0.22% at September 30, 2025 compared to 0.26% at December 31, 2024. The allowance for credit losses remained comparable at approximately 0.82% of total loans as of September 30, 2025 and December 31, 2024, respectively.

Investment securities decreased by \$3.8 million to \$114.5 million at September 30, 2025 from \$118.3 million at December 31, 2024. The decrease in the first nine months of 2025 was the result of \$4.0 million in maturities, \$5.6 million in paydowns and calls, and a decrease in unrealized losses of \$5.8 million.

Total deposits increased in the first nine months of 2025 by \$78.0 million, or 7.14%, to \$1.17 billion at September 30, 2025 from \$1.09 billion at December 31, 2024. When compared to \$1.09 billion at September 30, 2024, total deposits increased by \$84.3 million, or 7.76%. Noninterest bearing deposits increased by \$26.0 million and interest-bearing deposits increased by \$52.0 million during the first nine months of 2025. Lower cost interest bearing deposits increased by \$18.7 million during the first nine months of 2025, and time deposits increased by \$33.3 million, as customers continue to look for higher returns on their deposits.

Total stockholders' equity increased by \$13.2 million, or 14.90%, to \$101.9 million at September 30, 2025, from \$88.7 million at December 31, 2024. The change during the first nine months of 2025 was due to earnings of \$11.5 million and \$4.6 million in other comprehensive income less a dividend payment of \$2.9 million. Book value increased from \$15.69 per share at December 31, 2024 to \$18.03 per share at September 30, 2025.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Commercial Real Estate Loans

Commercial real estate loans can be secured by either owner occupied commercial real estate or non-owner occupied investment commercial real estate. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate. As of September 30, 2025 approximately 42.97% of our commercial mortgage loans are owner occupied and 57.03% are non-owner occupied.

We generally originate adjustable-rate commercial real estate loans with maximum terms of up to 25 years. From time to time, we will also originate fixed-rate loans. We generally limit loan-to-value ratios to 80% of the appraised value or purchase price, whichever is lower. All of our commercial real estate loans are subject to our underwriting procedures and guidelines. Although our commercial real estate are made to a diversified pool of unrelated borrowers across numerous businesses, adverse developments in our market area could have an adverse impact on this portfolio of loans and the Company's income and financial position.

The management team has extensive experience in underwriting commercial real estate loans and has implemented and continues to maintain heightened risk management procedures and strong underwriting criteria with respect to its commercial real estate portfolio. The Board of Directors has established internal maximum limits on commercial real estate loans to better manage and control the exposure to property classes during periods of changing economic conditions.

Our risk management process begins with a robust underwriting program. The underwriting and risk rating of all loans is completed by an underwriting team that is independent of the originating lender(s). The underwriting analysis of commercial real estate loans includes pre-origination sensitivity analysis utilizing portfolio stress testing methods to fully understand the potential exposure before we originate the credit. Once originated, each loan receives ongoing quarterly stress tests to evaluate the risk profile over the life of the credit.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower (including credit history), profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, among other factors, we consider the net operating income of the mortgaged property before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that, subject to certain exceptions, it is at least 1.25x for commercial real estate loans, and the ratio of the loan amount to the appraised value of the mortgaged property. Our commercial real estate loans are appraised by outside independent and qualified appraisers that are duly approved in accordance with Bank policy. Per policy, personal guarantees are obtained from commercial real estate borrowers. Each borrower's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Commercial Real Estate Loans, continued

We believe that our commercial real estate composition is relatively diversified in terms of industry sectors, property types and various lending specialties. As of September 30, 2025, the amortized cost balances of concentrations in our commercial real estate loan portfolio, were as follows:

	Owner Occupied	Non-Owner Occupied	Total	%
Office	\$ 36,540	\$ 43,039	\$ 79,579	27.40%
Hotel	-	51,746	51,746	17.82%
Retail	17,383	16,673	34,056	11.73%
Warehouse	27,600	9,161	36,761	12.66%
Industrial	11,850	4,003	15,853	5.46%
Restaurants	10,632	4,702	15,334	5.28%
Mini-storage	1,712	13,146	14,858	5.11%
Churches	9,099	728	9,827	3.38%
Assisted living	190	7,604	7,794	2.68%
Other	9,792	14,834	24,626	8.48%
Total	<u>\$ 124,798</u>	<u>\$ 165,636</u>	<u>\$ 290,434</u>	<u>100.00%</u>

Nonperforming and Problem Assets

Certain credit risks are inherent in making loans, particularly commercial and consumer loans. Management prudently assesses these risks and attempts to manage them effectively. The Bank attempts to use shorter-term loans and, although a portion of the loans have been made based upon the value of collateral, the underwriting decision is generally based on the cash flow of the borrower as the source of repayment rather than the value of the collateral. The Bank also attempts to reduce repayment risk by adhering to internal credit policies and procedures. These policies and procedures include officer and customer limits, periodic loan documentation review and follow up on exceptions to credit policies.

The following table provides information about the allowance for credit losses, nonperforming assets and loans past due 90 days or more and still accruing as of September 30, 2025 and December 31, 2024.

	September 30, 2025	December 31, 2024
Allowance for credit losses	\$ 8,547	\$ 8,027
Total loans	\$ 1,036,439	\$ 984,459
Allowance for credit losses to total loans	<u>0.82%</u>	<u>0.82%</u>
Nonperforming loans:		
Nonaccrual loans	\$ 2,241	\$ 2,563
Loans past due 90 days or more and still accruing	-	-
Total nonperforming loans	<u>2,241</u>	<u>2,563</u>
Other real estate owned	-	140
Total nonperforming assets	<u>\$ 2,241</u>	<u>\$ 2,703</u>
Total nonperforming loans as a percentage to total loans	<u>0.22%</u>	<u>0.26%</u>
Total allowance for credit losses to nonperforming loans	<u>381.39%</u>	<u>313.19%</u>
Total nonperforming assets as a percentage to total assets	<u>0.17%</u>	<u>0.22%</u>
Total nonaccrual loans as a percentage to total loans	<u>0.22%</u>	<u>0.26%</u>
Total allowance for credit losses to nonaccrual loans	<u>381.39%</u>	<u>313.19%</u>

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Nonperforming and Problem Assets, continued

Total nonperforming loans were 0.22% and 0.26% of total outstanding loans as of September 30, 2025 and December 31, 2024, respectively. Loans are placed in nonaccrual status when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Loans are removed from nonaccrual status when they are deemed a loss and charged to the allowance, transferred to foreclosed assets, or returned to accrual status based upon performance consistent with the original terms of the loan or a subsequent restructuring thereof. Management's ability to ultimately resolve these loans either with or without significant loss will be determined, to a great extent, by general economic and real estate market conditions.

Past due loans are often regarded as a precursor to further credit problems which would lead to future increases in nonaccrual loans or other real estate owned. As of September 30, 2025, loans past due 30-89 days and still accruing totaled \$1.1 million compared to \$416 thousand at December 31, 2024.

As a result of the JCB merger, there was one property valued at \$140 thousand in other real estate owned at December 31, 2024. The property was sold during the second quarter of 2025. More information on nonperforming assets and modifications to borrowers experiencing financial difficulty can be found in Note 5 of the "Notes to Consolidated Financial Statements" found in this Quarterly Report on Form 10-Q.

As of September 30, 2025 and December 31, 2024, respectively, we had loans with a current principal balance of \$10.1 million and \$9.7 million rated "Watch" or "Special Mention". The "Watch" classification is utilized by us when we have an initial concern about the financial health of a borrower that indicate above average risk. We then gather current financial information about the borrower and evaluate our current risk in the credit. After this review we will either move the loan to a higher risk rating category or move it back to its original risk rating. Loans may be left rated "Watch" for a longer period of time if, in management's opinion, there are risks that cannot be fully evaluated without the passage of time, and we want to review it on a more regular basis. Assets that do not currently expose the Bank to sufficient risk to warrant a classification such as "Substandard" or "Doubtful" but otherwise possess weaknesses are designated "Special Mention". Loans rated as "Watch" or "Special Mention" are not considered "potential problem loans" until they are determined by management to be classified as "Substandard". As of September 30, 2025 and December 31, 2024, respectively, potential problem loans classified as "Substandard" totaled \$7.1 million and \$5.3 million. As of September 30, 2025 and December 31, 2024, the Bank had no loans graded "Doubtful" included in the balance of total loans outstanding.

The allowance for credit losses is maintained at a level adequate to absorb potential losses. Some of the factors which management considers in determining the appropriate level of the allowance for credit losses are: past loss experience, an evaluation of the current loan portfolio, identified loan problems, the loan volume outstanding, the present and expected economic conditions in general, and in particular, how such conditions relate to the market area that the Bank serves. Bank regulators also periodically review the Bank's loans and other assets to assess their quality. Loans deemed uncollectible are charged to the allowance. Provisions for credit losses and recoveries on loans previously charged off are added to the allowance. The reserve for credit losses was approximately 0.82% of total loans at September 30, 2025 and December 31, 2024, respectively. The allocation of the allowance for credit losses as of September 30, 2025 and December 31, 2024 is as follows:

(dollars in thousands)	September 30, 2025			December 31, 2024		
	Amount	% of ACL to Loans	% of Loans to Total Loans	Amount	% of ALL to Loans	% of Loans to Total Loans
Balance at the end of the period applicable to:						
Construction & development	\$ 1,021	1.46%	6.74%	\$ 1,012	1.47%	6.97%
Farmland	180	0.76%	2.29%	174	0.71%	2.48%
Residential	4,440	0.77%	55.84%	4,070	0.79%	52.63%
Commercial mortgage	2,045	0.70%	28.02%	1,941	0.66%	29.78%
Commercial & agriculture	528	0.91%	5.60%	504	0.82%	6.22%
Consumer and other	333	2.12%	1.51%	326	1.72%	1.92%
Total	\$ 8,547	0.82%	100.00%	\$ 8,027	0.82%	100.00%

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Analysis of Net Charge-Offs

The following table shows net charge-offs, average loan balances and the percentage of charge-offs to average loan balances for the nine months ended September 30, 2025 and 2024, and the year ended December 31, 2024.

(dollars in thousands)	Nine months ended September 30, 2025		
	Net (Charge-Offs) Recoveries	Average Loans	Percentage of Net (Charge-Offs) Recoveries to Average Loans
Construction & development	\$ -	\$ 68,932	0.00%
Farmland	-	23,780	0.00%
Residential	1	548,434	0.00%
Commercial mortgage	3	294,817	0.00%
Commercial & agriculture	30	61,946	0.05%
Consumer & other	(69)	17,935	(0.38%)
Total	<u>\$ (35)</u>	<u>\$ 1,015,844</u>	<u>0.00%</u>

(dollars in thousands)	Nine months ended September 30, 2024		
	Net (Charge-Offs) Recoveries	Average Loans	Percentage of Net (Charge-Offs) Recoveries to Average Loans
Construction & development	\$ -	\$ 54,333	0.00%
Farmland	-	24,353	0.00%
Residential	9	426,712	0.00%
Commercial mortgage	3	269,798	0.00%
Commercial & agriculture	11	51,321	0.02%
Consumer & other	(58)	16,213	(0.36%)
Total	<u>\$ (35)</u>	<u>\$ 842,730</u>	<u>0.00%</u>

(dollars in thousands)	Year ended December 31, 2024		
	Net (Charge-Offs) Recoveries	Average Loans	Percentage of Net (Charge-Offs) Recoveries to Average Loans
Construction & development	\$ -	\$ 57,397	0.00%
Farmland	-	24,468	0.00%
Residential	14	446,612	0.00%
Commercial mortgage	4	275,560	0.00%
Commercial & agriculture	13	53,491	0.02%
Consumer & other	(87)	16,821	(0.52%)
Total	<u>\$ (56)</u>	<u>\$ 874,349</u>	<u>(0.01%)</u>

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity

Liquidity is the ability to convert assets to cash to fund depositors' withdrawals or borrowers' loans without significant loss. Unsecured federal fund lines available from correspondent banks totaled \$73.0 million at September 30, 2025. There was nothing outstanding under these lines of credit as of September 30, 2025. At December 31, 2024, the Bank had \$4.3 million outstanding under these lines of credit. In addition, the Bank has the ability to borrow up to approximately \$295.6 million from the FHLB, subject to the pledging of collateral.

At September 30, 2025, the Bank had short-term FHLB advances of \$25.0 million. At December 31, 2024, the Bank had short-term FHLB advances of \$20.0 million.

The Bank uses cash and federal funds sold to meet its daily funding needs. If funding needs are met through holdings of excess cash and federal funds, then profits might be sacrificed as higher-yielding investments are foregone in the interest of liquidity. Therefore, management determines, based on such items as loan demand and deposit activity, an appropriate level of cash and federal funds and seeks to maintain that level.

The Bank's investment security portfolio also serves as a source of liquidity. The primary goals of the investment portfolio are liquidity management and maturity gap management. As investment securities mature, the proceeds are reinvested in federal funds sold if the federal funds level needs to be increased; otherwise, the proceeds are reinvested in similar investment securities. The majority of investment security transactions consist of replacing securities that have been called or matured. The Bank keeps a portion of its investment portfolio in unpledged assets with average lives or repricing terms of less than 60 months. These investments are a preferred source of funds because their market value is not as sensitive to changes in interest rates as investments with longer durations.

On September 9, 2024, the Company entered into a \$5.0 million unsecured revolving line of credit, with a maturity date of September 9, 2025. On September 5, 2025, this \$5.0 million unsecured revolving line of credit was renewed, and as a result the maturity date was changed to September 9, 2026. Interest on the line of credit is variable and is set at the prime rate. At September 30, 2025, \$1.5 million was outstanding under this revolving line of credit at a rate of 7.25% and was classified as short-term debt. At December 31, 2024, \$5.0 million was outstanding under this revolving line of credit at a rate of 7.50% and was classified as short-term debt.

As a result of the steps described above, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs. The liquidity ratio (the level of liquid assets divided by total deposits plus short-term liabilities) was 9.9% and 7.7% for the periods ended September 30, 2025 and December 31, 2024, respectively. These ratios are considered to be adequate by management.

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Capital Resources

A significant measure of the strength of a financial institution is its capital base. Federal regulations have classified and defined capital into the following components: (1) Tier 1 capital, which includes common shareholders' equity and qualifying preferred equity, and (2) Tier 2 capital, which includes a portion of the allowance for credit losses, certain qualifying long-term debt and preferred stock which does not qualify as Tier 1 capital. Financial institutions are also subject to the BASEL III requirements, which includes as part of the capital ratios profile the Common Equity Tier 1 risk-based ratio. Minimum capital levels are regulated by risk-based capital adequacy guidelines, which require a financial institution to maintain capital as a percentage of its assets, and certain off-balance sheet items adjusted for predefined credit risk factors (risk-adjusted assets).

Regulatory guidelines relating to capital adequacy provide minimum risk-based ratios at the Bank level which assess capital adequacy while encompassing all credit risks, including those related to off-balance sheet activities. At September 30, 2025, the Bank exceeded minimum regulatory capital requirements and is considered to be "well capitalized."

At September 30, 2025, the Company's equity to asset ratio was 7.80% and the Bank's capital was in excess of regulatory requirements as discussed above. The Company will continue to monitor economic conditions in determining future cash dividends and any requirements for additional capital each quarter. The Company declared and paid dividends of \$2.9 million during the first nine months of 2025.

Forward-Looking Statements

Certain information contained in this discussion may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934 as amended. These include statements as to expectations regarding future financial performance and any other statements regarding future results or expectations. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our plans, strategies, and expectations of the Company, are generally identified by the use of words such as "believe," "expect," "intend," "anticipate," "estimate," or "project" or similar expressions. Our ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain and subject to a number of risks. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to: changes in interest rates; general economic and financial market conditions; the effect of changes in banking, tax and other laws and regulations and interpretations or guidance thereunder; monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board; inflation; the economic impact of duties, tariffs or other barriers or restrictions on trade, and any retaliatory counter measures, and the volatility and uncertainty arising therefrom; the quality and composition of the loan and securities portfolios; demand for loan products; deposit flows; the ability to maintain secondary funding sources; the Company's capital and liquidity; competition; demand for financial services in the Company's market area; the implementation of new technologies; the ability to develop and maintain secure and reliable electronic systems; political developments, including government shutdowns and other significant disruptions and changes in the funding, size, scope and effectiveness of the federal government, its agencies and services; accounting principles, policies, and guidelines; and other factors identified in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections and elsewhere in the Company's Annual Report on 10-K for the year ended December 31, 2024 and this Quarterly Report on Form 10-Q. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

Part I. Financial Information

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required.

Part I. Financial Information

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting. There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which Skyline is a party or of which any of its property is subject.

Item 1A. Risk Factors

In connection with the information set forth in this Form 10-Q, the factors discussed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2024 should be considered. These risks could materially and adversely affect our business, financial condition and results of operations. There have been no material changes to the factors discussed in our Annual Report on Form 10-K.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

During the fiscal quarter ended September 30, 2025, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408(a) of Regulation S-K).

Part II. Other Information

Item 6. Exhibits

- 31.1 [Rule 15\(d\)-14\(a\) Certification of Chief Executive Officer.](#)
- 31.2 [Rule 15\(d\)-14\(a\) Certification of Chief Financial Officer.](#)
- 32.1 [Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.](#)
- 101 The following materials from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2025, formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Unaudited Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

Part II. Other Information

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.

Skyline Bankshares, Inc.

Date: November 13, 2025

By: /s/ Blake M. Edwards
Blake M. Edwards
President and Chief Executive Officer

By: /s/ Lori C. Vaught

Lori C. Vaught
Chief Financial Officer

**CERTIFICATION PURSUANT TO RULE 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Blake M. Edwards, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Skyline Bankshares, Inc. for the period ended September 30, 2025;
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 13, 2025

By: /s/ Blake M. Edwards

Blake M. Edwards

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Lori C. Vaught, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Skyline Bankshares, Inc. for the period ended September 30, 2025;
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 13, 2025

By: /s/ Lori C. Vaught
Lori C. Vaught
Chief Financial Officer

**STATEMENT OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. § 1350**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2025 (the “Form 10-Q”) of Skyline Bankshares, Inc. (the “Company”), we, Blake M. Edwards, Chief Executive Officer of the Company, and Lori C. Vaught, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

- (a) the Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (b) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Form 10-Q.

By: /s/ Blake M. Edwards
Blake M. Edwards
President and Chief Executive Officer

Date: November 13, 2025

By: /s/ Lori C. Vaught
Lori C. Vaught
Chief Financial Officer

Date: November 13, 2025