

**Federal Deposit Insurance Corporation
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

or

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

For the transition period from _____ to _____

FDIC Certificate Number: 58481

FIRST BANK

(Exact Name of Registrant as Specified in its Charter)

New Jersey

(State or Other Jurisdiction of
Incorporation or Organization)

20-8164471

(I.R.S. Employer Identification No.)

2465 Kuser Road, Hamilton, New Jersey

(Address of Principal Executive Offices)

08690

(Zip Code)

(877) 821-2265

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$5.00 per share	FRBA	NASDAQ Global Market

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

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

[Table of Contents](#)

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

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting 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

As of November 8, 2024, there were 25,164,990 shares of the registrant’s Common Stock, par value \$5.00 per share, outstanding.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	
<u>Consolidated Statements of Financial Condition</u>	<u>1</u>
<u>Consolidated Statements of Income (Loss)</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>3</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>64</u>
<u>Item 4. Controls and Procedures</u>	<u>66</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>66</u>
<u>Item 1A. Risk Factors</u>	<u>66</u>
<u>Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities</u>	<u>66</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>66</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>66</u>
<u>Item 5. Other Information</u>	<u>67</u>
<u>Item 6. Exhibits</u>	<u>67</u>
<u>Exhibit Index</u>	<u>67</u>
<u>Signatures</u>	<u>68</u>

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited).

FIRST BANK
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data, unaudited)

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Assets		
Cash and due from banks	\$ 35,456	\$ 25,652
Restricted cash	9,200	13,770
Interest bearing deposits with banks	267,643	188,529
Cash and cash equivalents	312,299	227,951
Interest bearing time deposits with banks	743	996
Investment securities available for sale, at fair value (amortized cost of \$79,596 and \$101,683, respectively)	74,549	94,142
Investment securities held to maturity, net of allowance for credit losses of \$206 and \$200, respectively (fair value of \$39,049 and \$38,486, respectively)	43,659	44,059
Equity securities, at fair value	1,860	1,888
Restricted investment in bank stocks	13,845	10,469
Other investments	11,141	9,841
Loans, net of deferred fees and costs	3,087,488	3,021,501
Less: Allowance for credit losses	(37,434)	(42,397)
Net loans	3,050,054	2,979,104
Premises and equipment, net	20,331	21,627
Other real estate owned, net	5,637	-
Accrued interest receivable	13,502	14,763
Bank-owned life insurance	84,727	86,435
Goodwill	44,166	44,166
Other intangible assets, net	9,318	10,812
Deferred income taxes, net	31,448	30,875
Other assets	40,374	32,199
Total assets	\$ 3,757,653	\$ 3,609,327
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	\$ 519,079	\$ 501,763
Interest bearing deposits	2,530,991	2,465,806
Total deposits	3,050,070	2,967,569
Borrowings	236,999	179,140
Subordinated debentures	29,926	55,261
Accrued interest payable	5,078	2,813
Other liabilities	33,510	33,644
Total liabilities	3,355,583	3,238,427
Stockholders' Equity:		
Preferred stock, par value \$2 per share; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$5 per share; 40,000,000 shares authorized; 27,367,984 shares issued and 25,186,920 shares outstanding and 27,149,186 shares issued and 24,968,122 shares outstanding at, respectively	135,415	134,552
Additional paid-in capital	124,014	122,881
Retained earnings	167,792	140,563
Accumulated other comprehensive loss	(3,773)	(5,718)
Treasury stock, 2,181,064 shares at September 30, 2024 and December 31, 2023	(21,378)	(21,378)
Total stockholders' equity	402,070	370,900
Total liabilities and stockholders' equity	\$ 3,757,653	\$ 3,609,327

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

FIRST BANK
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in thousands, except for share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest and Dividend Income				
Investment securities—taxable	\$ 1,201	\$ 1,151	\$ 3,661	\$ 3,128
Investment securities—tax-exempt	35	86	109	158
Interest bearing deposits with banks, Federal funds sold and other	3,972	2,593	10,479	6,029
Loans, including fees	50,957	46,088	151,039	111,536
Total interest and dividend income	56,165	49,918	165,288	120,851
Interest Expense				
Deposits	23,081	18,470	66,253	40,574
Borrowings	2,550	1,914	6,859	4,939
Subordinated debentures	440	940	1,224	1,821
Total interest expense	26,071	21,324	74,336	47,334
Net interest income	30,094	28,594	90,952	73,517
Credit loss expense	1,579	6,650	944	8,237
Net interest income after credit loss expense	28,515	21,944	90,008	65,280
Non-Interest Income				
Service fees on deposit accounts	362	280	1,056	741
Loan fees	218	152	437	259
Income from bank-owned life insurance	1,819	544	3,213	1,291
Losses on sale of investment securities, net	(555)	(527)	(555)	(734)
Gains (losses) on sale of loans, net	135	(704)	(536)	(393)
Gains on recovery of acquired loans	35	24	209	95
Other non-interest income	465	424	1,308	1,026
Total non-interest income	2,479	193	5,132	2,285
Non-Interest Expense				
Salaries and employee benefits	10,175	9,326	30,181	25,320
Occupancy and equipment	2,080	1,915	6,188	5,107
Legal fees	245	270	801	671
Other professional fees	943	631	2,628	1,880
Regulatory fees	728	595	1,970	1,345
Directors' fees	272	224	784	631
Data processing	800	907	2,355	2,206
Marketing and advertising	310	220	983	693
Travel and entertainment	233	140	762	519
Insurance	245	272	740	624
Other real estate owned expense, net	662	-	879	38
Merger-related expenses	-	7,028	-	7,710
Other expense	1,951	1,958	6,136	4,020
Total non-interest expense	18,644	23,486	54,407	50,764
Income (loss) Before Income Taxes	12,350	(1,349)	40,733	16,801
Income tax expense (benefit)	4,188	(78)	8,986	4,284
Net Income (loss)	\$ 8,162	\$ (1,271)	\$ 31,747	\$ 12,517
Basic earnings (loss) per common share				
Basic earnings (loss) per common share	\$ 0.32	\$ (0.05)	\$ 1.26	\$ 0.60
Diluted earnings (loss) per common share				
Diluted earnings (loss) per common share	\$ 0.32	\$ (0.05)	\$ 1.26	\$ 0.59
Basic weighted average common shares outstanding				
Basic weighted average common shares outstanding	25,174,285	23,902,478	25,114,685	20,928,847
Diluted weighted average common shares outstanding				
Diluted weighted average common shares outstanding	25,343,820	23,902,478	25,265,250	21,057,655

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

FIRST BANK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income (loss)	\$ 8,162	\$ (1,271)	\$ 31,747	\$ 12,517
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investments arising during the period	2,195	(2,037)	1,939	(1,648)
Reclassification adjustment for losses on sale of securities included in net income	555	527	555	734
	2,750	(1,510)	2,494	(914)
Income tax effect	(695)	366	(549)	205
Total other comprehensive income (loss), net of tax	2,055	(1,144)	1,945	(709)
Total comprehensive income (loss)	\$ 10,217	\$ (2,415)	\$ 33,692	\$ 11,808

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

FIRST BANK
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share data, unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance—June 30, 2024	\$ 135,202	\$ 123,353	\$ 161,140	\$ (5,828)	\$ (21,378)	\$ 392,489
Net income	-	-	8,162	-	-	8,162
Other comprehensive income, net of tax	-	-	-	2,055	-	2,055
Vesting of restricted stock, 1,225 shares	6	(6)	-	-	-	-
Exercise of stock options, 41,363 shares	207	135	-	-	-	342
Stock-based compensation expense	-	532	-	-	-	532
Cash dividends - common, \$0.06 per share	-	-	(1,510)	-	-	(1,510)
Balance—September 30, 2024	<u>\$ 135,415</u>	<u>\$ 124,014</u>	<u>\$ 167,792</u>	<u>\$ (3,773)</u>	<u>\$ (21,378)</u>	<u>\$ 402,070</u>
Balance—December 31, 2023	\$ 134,552	\$ 122,881	\$ 140,563	\$ (5,718)	\$ (21,378)	\$ 370,900
Net income	-	-	31,747	-	-	31,747
Other comprehensive income, net of tax	-	-	-	1,945	-	1,945
Vesting of restricted stock, 117,778 shares	589	(589)	-	-	-	-
Exercise of stock options, 54,792 shares	274	178	-	-	-	452
Stock-based compensation expense	-	1,544	-	-	-	1,544
Cash dividends - common, \$0.18 per share	-	-	(4,518)	-	-	(4,518)
Balance—September 30, 2024	<u>\$ 135,415</u>	<u>\$ 124,014</u>	<u>\$ 167,792</u>	<u>\$ (3,773)</u>	<u>\$ (21,378)</u>	<u>\$ 402,070</u>
Balance—June 30, 2023	\$ 104,939	\$ 81,053	\$ 136,446	\$ (6,899)	\$ (21,378)	\$ 294,161
Net loss	-	-	(1,271)	-	-	(1,271)
Other comprehensive loss, net of tax	-	-	-	(1,144)	-	(1,144)
Vesting of restricted stock, 247 shares	1	(1)	-	-	-	-
Exercise of stock options, 2,500 shares	13	3	-	-	-	16
Stock-based compensation expense	-	424	-	-	-	424
Cash dividends - common, \$0.06 per share	-	-	(1,495)	-	-	(1,495)
Acquisition of Malvern Bancorp, Inc., 5,881,815 shares, \$11.96 per share	29,409	40,937	-	-	-	70,346
Balance—September 30, 2023	<u>\$ 134,362</u>	<u>\$ 122,416</u>	<u>\$ 133,680</u>	<u>\$ (8,043)</u>	<u>\$ (21,378)</u>	<u>\$ 361,037</u>
Balance—December 31, 2022	\$ 104,512	\$ 80,695	\$ 127,532	\$ (7,334)	\$ (15,843)	\$ 289,562
Effect of adopting Accounting Standards Codification Topic 326	-	-	(2,546)	-	-	(2,546)
Net income	-	-	12,517	-	-	12,517
Other comprehensive loss, net of tax	-	-	-	(709)	-	(709)
Vesting of restricted stock, 83,076 shares	415	(415)	-	-	-	-
Exercise of stock options, 5,000 shares	26	6	-	-	-	32
Stock-based compensation expense	-	1,193	-	-	-	1,193
Cash dividends - common, \$0.18 per share	-	-	(3,823)	-	-	(3,823)
Purchase of 550,000 shares of common stock	-	-	-	-	(5,535)	(5,535)
Acquisition of Malvern Bancorp, Inc., 5,881,815 shares, \$11.96 per share	29,409	40,937	-	-	-	70,346
Balance—September 30, 2023	<u>\$ 134,362</u>	<u>\$ 122,416</u>	<u>\$ 133,680</u>	<u>\$ (8,043)</u>	<u>\$ (21,378)</u>	<u>\$ 361,037</u>

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

FIRST BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 31,747	\$ 12,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss expense	944	8,237
Depreciation and amortization of premises and equipment	1,572	1,275
Amortization and accretion of premiums/discounts on investment securities, net	202	42
Amortization and accretion of fair value adjustments, net	(11,287)	(2,809)
Amortization and accretion of deferred loan fees and costs, net	(1,989)	(1,607)
Amortization of core deposit intangible assets and loan servicing rights	1,679	501
Amortization of subordinated debentures issuance cost	83	84
Noncash operating lease expense	1,797	1,482
Stock-based compensation	1,544	1,193
Losses on sale of investment securities available for sale	555	734
Net loss on equity securities	(39)	-
Originations of loans held for sale	(11,807)	(3,214)
Proceeds from sale of loans held for sale	34,050	92,590
Losses on sale of loans	536	393
Loss on sale of premises and equipment	22	-
Writedowns of valuation allowance of other real estate owned	362	-
Income from bank-owned life insurance	(3,213)	(1,291)
Deferred income tax benefit	(1,122)	8,207
Changes in assets and liabilities:		
Decrease (increase) in accrued interest receivable	1,261	(2,729)
Increase in intangible and other assets	(4,752)	(10,724)
Increase(decrease) in accrued interest payable	2,266	(425)
(Decrease) increase in other liabilities	(5,574)	355
Net cash provided by operating activities	<u>38,837</u>	<u>104,811</u>
Cash flows from investing activities:		
Net decrease in interest bearing time deposits with banks	253	795
Net increase in loans	(87,167)	(34,236)
Purchases of investment securities available for sale	(15,457)	(1,683)
Purchases of investment securities held to maturity	(2,169)	(157)
Proceeds from sales of investment securities available for sale	11,660	88,226
Proceeds from maturities, calls and paydowns of investment securities available for sale	25,167	13,662
Proceeds from maturities, calls and paydowns of investment securities held to maturity	2,523	1,867
Purchase of restricted stocks	(15,677)	(17,488)
Redemption of restricted stocks	12,301	24,265
Purchases of other investments	(1,289)	(601)
Proceeds from other investments	56	-
Proceeds from sale of premises and equipment	1,087	-
Purchases of premises and equipment	(1,329)	(2,370)
Net surrender of bank owned life insurance	4,410	-
Redemption of bank-owned life insurance	323	-
Benefit proceeds on bank-owned life insurance	187	-
Cash paid for acquisition	-	(59,333)
Cash and cash equivalents acquired in acquisition	-	43,086
Net cash (used in) provided by investing activities	<u>(65,121)</u>	<u>56,033</u>
Cash flows from financing activities:		
Net increase in deposits	81,792	1,350
Proceeds from borrowings	330,000	350,000
Repayments of borrowings	(272,094)	(448,574)
Redemption of subordinated debentures	(25,000)	-
Proceeds from stock option exercises	452	32
Cash dividends paid on common stock	(4,518)	(3,823)
Purchase of treasury stock	-	(5,535)
Net cash provided by (used in) financing activities	<u>110,632</u>	<u>(106,550)</u>
Net increase in cash and cash equivalents	84,348	54,294
Cash and cash equivalents at beginning of year	227,951	125,916
Cash and cash equivalents at end of period	<u>\$ 312,299</u>	<u>\$ 180,210</u>

FIRST BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited) continued

	Nine Months Ended September 30,	
	2024	2023
Supplemental disclosures of cash flow information:		
Cash paid for interest on deposits and borrowings	\$ 71,279	\$ 47,372
Cash paid for income taxes	\$ 4,055	\$ 7,835
Supplemental schedule of non-cash activities:		
Vesting of restricted stock	\$ 6	\$ 415
Transfer of loans to other real estate owned	\$ 5,999	\$ -
Transfer of loans receivable to loans held-for-sale	\$ 22,407	\$ 14,944
Transfer of loans held-for-sale to loans receivable	\$ 2,042	\$ -
Acquisition:		
Fair value of assets acquired, net of cash and cash equivalents acquired	\$ -	\$ 910,740
Fair value of liabilities assumed	\$ -	\$ 850,487
Number of common stock shares issued in acquisition	-	5,881,815
Consideration of shares issued	\$ -	\$ 70,346

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

Note 1 – Summary of Significant Accounting Policies*Basis of Financial Statement Presentation*

The condensed consolidated financial statements of First Bank have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”). The condensed consolidated financial statements are prepared on an accrual basis and include the accounts of First Bank’s wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated from the accompanying condensed consolidated financial statements. As used in this Quarterly Report on Form 10-Q, “the Bank” and “the Company” refer to First Bank and its consolidated subsidiaries unless otherwise noted.

The Consolidated Statement of Financial Condition as of September 30, 2024, the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Stockholders’ Equity for the three and nine months ended September 30, 2024 and 2023, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2024 and 2023 are unaudited. The Consolidated Statement of Financial Condition as of December 31, 2023 was derived from the audited Consolidated Statement of Financial Condition as of that date.

On January 1, 2023, the Company adopted Accounting Standards Codification Topic 326: Financial Instruments – Credit Losses (“ASC Topic 326”), which replaces the Company’s Allowance for Loan Losses (“ALLL”) policy under the incurred loss model, and adoption of ASU No. 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings (“TDR”) and Vintage Disclosures, which replaces the Company’s TDR accounting model policy, which are both discussed below in Recently Adopted Accounting Standards. There have been no material changes to the Company’s significant accounting policies for the nine months ended September 30, 2024.

In the opinion of management, all adjustments and disclosures which are generally routine and recurring in nature and necessary for a fair statement of interim results have been made. In preparing the unaudited condensed consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Consolidated Statements of Financial Condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the determination of the fair value of acquired loans; the allowance for credit losses for loans and investment securities; the evaluation of goodwill for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the condensed consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual results could differ from those estimates.

The interim unaudited condensed consolidated financial statements included herein have been prepared in accordance with instructions for the Quarterly Report on Form 10-Q and the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP and industry practice have been condensed or omitted from interim reporting pursuant to SEC rules. The results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of the results which may be expected for the entire year. The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the condensed consolidated financial statements in this Quarterly Report on Form 10-Q were available to be issued. Interim financial statements should be read in conjunction with the condensed consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as filed with the FDIC.

Recently Adopted Accounting Standards

Accounting Standards Codification Topic 326: Financial Instruments — Credit Losses (“ASC Topic 326”). This guidance requires the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that was in use through December 31, 2022. The Company adopted this guidance on January 1, 2023. Under this guidance, an entity measures all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The Current Expected Credit Loss (“CECL”) model applies to loans and leases, unfunded lending commitments, held to maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available for sale debt securities requires the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other than temporary.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**Note 1 – Summary of Significant Accounting Policies (continued)**

The Company is utilizing a vintage method to estimate the current expected credit loss on majority of the loan portfolio except for the recently acquired Malvern Bank loan portfolio in which a probability of default/loss given default method is being utilized. The Company utilizes economic forecasts over a two-year reasonable and supportable forecast period followed by a cliff reversion to historical data. The CECL framework generally results in earlier recognition of credit losses and is significantly influenced by the composition, characteristics and quality of the Company's loan portfolio, as well as the prevailing economic conditions and forecasts. The Company applied the new guidance through a cumulative-effect tax effected adjustment to retained earnings as of the beginning of 2023, with future adjustments to credit loss expectations recorded through the income statement as charges or credits to earnings.

The Company's Allowance for Credit Losses ("ACL") related to all financial assets increased by \$3.9 million upon adoption of CECL on January 1, 2023. This amount included an increase of \$3.6 million related to the allowance for credit losses on loans, an increase of \$54,000 related to allowance for credit losses on off-balance sheet commitments and the establishment of \$224,000 allowance for credit losses on held to maturity ("HTM") investments. At December 31, 2022, purchase credit impaired ("PCI") gross loans totaled \$3.0 million (\$2.5 million net of specific credit fair value adjustments). Upon adoption, the Company's PCI loans were converted to purchase credit deteriorated ("PCD") loans as defined by ASC Topic 326. The transition adjustment for the PCI loans to PCD loans resulted in a reclassification of \$509,000 from the specific credit fair value adjustment to the allowance for credit losses on loans. Upon adoption of CECL the Company's deferred tax assets increased by a total of \$869,000. These adjustments resulted in cumulative-effect tax effected reduction to retained earnings of \$2.5 million.

Management estimates the ACL using relevant available information from internal and external sources, by relating to past events and current conditions, and by utilizing reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses under both the vintage and probability of default/loss given default methods. Adjustments to historical loss information are made for differences in current loan specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency levels, loan collateral values as well as changes in economic conditions.

Expected credit losses are estimated over the contractual term of the assets, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications.

ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures". The amendments in this ASU were adopted on January 1, 2023 to (1) eliminate accounting guidance for TDRs by creditors, while enhancing disclosure requirements for loan refinancings and restructurings when a borrower is experiencing financial difficulty; (2) require disclosures of current period gross write-offs by year of origination for financing receivables and net investments in leases. The amendments in this ASU were applied prospectively, except for the transition method related to the recognition and measurement of TDRs, which was applied using a modified retrospective transition method. The Company adopted this guidance prospectively, and the adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

ASU No. 2023-02, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures. The FASB issued ASU 2023-02 using the Proportional Amortization Method. The amendments in this update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. A reporting entity may make an accounting policy election to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments. The amendments in this update also remove certain guidance for Qualified Affordable Housing Project investments and require the application of the delayed equity contribution guidance to all tax equity investments. The amendments in this update were effective for fiscal years beginning after December 15, 2023, and must be applied on either a modified retrospective or a retrospective basis. The Company adopted this guidance, and the adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

Recent Accounting Standards Not Yet Adopted

ASU 2024-03, Disaggregation of Income Statement Expenses (DISE), applies to all public business entities (PBEs) and is effective for annual reporting periods beginning after December 15, 2026 and interim reporting periods beginning after December 15, 2027. The requirements will be applied prospectively with the option for retrospective application. Early adoption is permitted. The Company does not expect this standard to have a material impact on the financial condition or results of operations but is currently assessing the impact of additional disclosures to the consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

In November 2023, FASB issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures”. The amendments in this ASU require improved reportable segment information on an annual and interim basis, primarily through enhanced disclosures about significant segment expenses. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2023, and interim periods for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company does not expect this standard to have a material impact on the financial condition or results of operations but is currently assessing the impact of additional disclosures to the consolidated financial statements.

In December 2023, FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures”. The amendments in this ASU require improved annual income tax disclosures surrounding rate reconciliation, income taxes paid, and other disclosures. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company does not expect this standard to have a material impact on the financial condition or results of operations but is currently assessing the impact of additional disclosures to the consolidated financial statements.

Note 2 – Business Combination

Malvern Bancorp, Inc. and Malvern Bank, National Association Acquisition

On July 17, 2023, First Bank completed its acquisition of Malvern Bancorp, Inc. (“Malvern Bancorp”) and Malvern Bank, National Association (“Malvern Bank”), collectively (“Malvern”), pursuant to the Agreement and Plan of Merger dated December 13, 2022, as amended (the “Merger Agreement”). Malvern Bancorp merged with and into FB Merger Subsidiary LLC, the wholly-owned subsidiary of First Bank (“Merger Sub”), with Merger Sub as the surviving entity, immediately followed by the merger of Malvern Bank with and into First Bank, with First Bank as the surviving institution, collectively (the “Merger”).

The acquisition of Malvern allowed the Company to expand its presence in Southeastern Pennsylvania, creating critical mass in one of the most attractive markets in the Northeast. First Bank determined that the Malvern acquisition constitutes a business combination and was accounted for using the acquisition method of accounting. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based upon their estimated fair values, net of tax, as of the acquisition date. The excess consideration paid over the fair value of the net assets acquired has been reported as goodwill in the Company’s Consolidated Statements of Financial Condition. The \$26.3 million of goodwill created on the Malvern merger is not amortizable or deductible for tax purposes. The amount of goodwill represents an asset attributed to the future benefits arising from other assets acquired in a business combination. Future benefits consist largely of the synergies and economies of scale expected from combining the operations of the Company with Malvern. First Bank does not currently provide segment reporting for GAAP, therefore the goodwill was assigned to the whole operating company. At December 31, 2023, the Company finalized its review of the acquired assets and liabilities and will not record any further adjustments to the carrying value.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 2 – Business Combination (continued)

In connection with the acquisition, the consideration paid, and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

	Estimated Fair Value at July 17, 2023 (in thousands)
Consideration paid:	
Common stock issued (5.9 million shares at \$11.96 per share closing price on July 14, 2023)	\$ 70,346
Cash paid to Malvern shareholders including fractional shares	59,333
Total consideration paid	129,679
Assets acquired:	
Cash and cash equivalents	43,086
Investment securities	91,982
Restricted investment in bank stocks	8,669
Loans held for sale	103,382
Loans, net of allowance for credit losses	624,332
Premises and equipment	9,767
Accrued interest receivable	3,885
Core deposit intangible	10,308
Deferred tax asset	17,838
Other assets	40,577
Total assets acquired	953,826
Liabilities assumed:	
Deposits	671,850
Borrowings	130,000
Subordinated debentures	25,462
Accrued interest payable	2,430
Obligations from secured borrowings	10,784
Other liabilities	9,961
Total liabilities assumed	850,487
Net assets acquired	103,339
Goodwill recorded in acquisition	\$ 26,340

The following is a discussion of the valuation methodologies used to estimate the fair value of major categories of assets acquired and liabilities assumed. The Company used an independent valuation specialist to assist with the determination of fair values of certain acquired assets and assumed liabilities.

Cash and Cash Equivalents

The estimated fair value was determined to approximate the carrying amount of these assets.

Investment securities

All acquired investments were classified as available for sale. The estimated fair values of available for sale securities were calculated utilizing Level 2 inputs. The securities acquired are bought and sold in active markets. Prices for these instruments were determined using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. Additional information is included in Note 6.

Note 2 — Business Combination — (Continued)

Loans Held for Sale and Investment

The acquired loan portfolio was valued utilizing Level 3 inputs and included the use of a discounted cash flow methodology applied on a pooled basis for accruing loans and on an individual basis for non-accruing loans and incorporated assumptions that marketplace participants would use in estimating fair values. In the fair value process, accruing loans were grouped by characteristics such as loan type, term, collateral and rate. The Company developed assumptions as to credit risk, expected lifetime losses, qualitative factors, collateral values, discount rates, expected payments and expected prepayments. In instances where reliable market information was not available, the Company used its own assumptions to determine reasonable fair value. Specifically, the Company created three separate fair value adjustments that a market participant would employ in estimating the total fair value adjustment. The three fair valuation adjustments used were: (i) interest rate loan fair value adjustment; (ii) general credit fair value adjustment; and (iii) specific credit fair value adjustment.

To prepare the interest rate fair value adjustment, market discount rates for similar loans were obtained from various data sources to develop market participant assumptions. The general credit fair value adjustment was calculated using a two-part general credit fair value adjustment: (i) expected lifetime losses and (ii) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using historical losses of the acquired bank and Pennsylvania peer banks. The adjustment related to qualitative factors was impacted by general economic conditions and the risk related to lack of experience with the originator's underwriting process.

Acquired loans are classified into three categories: purchased credit deteriorated accruing loans (PCD Accruing loans), purchased credit deteriorated non-accruing loans (PCD Non-Accruing) and non-PCD loans. PCD loans are defined as a loan or group of loans that have experienced more than insignificant credit deterioration since origination. The Company considers various factors in connection with the identification of more-than-insignificant deterioration in credit, including but not limited to nonperforming status, delinquency, risk ratings, and other qualitative factors that indicate deterioration in credit quality since origination. Non-PCD loans will have an allowance established subsequent to the acquisition date, which is recognized as an expense through the provision for credit losses. For PCD loans, the loans were recorded at their amortized cost, less an allowance for credit losses of \$6.9 million on the acquisition date. There is no provision for credit loss expense recognized on PCD loans because the initial allowance is established by grossing-up the amortized cost of the PCD loans. The remaining difference between the net of the amortized cost basis and the allowance for credit losses and the fair value allocated to the loans on the date of acquisition is recognized as a non-credit-related discount that will be accreted into interest income of the life of the loans.

A Day 1 allowance for credit losses on non-PCD loans of \$5.5 million, was recorded through the provision for credit losses within the Consolidated Statements of Income. At the acquisition date, of the \$791.0 million loans acquired from Malvern, \$702.1 million, or 88.6%, of Malvern's loan portfolio was accounted for as non-PCD loans.

The following table provides details related to the fair value of acquired PCD loans.

	Unpaid Principal Balance	PCD Allowance for Credit Losses at Acquisition	Non-Credit Discount at Acquisition	Fair Value of PCD Loans at Acquisition
	(in thousands)			
PCD Accruing	\$ 71,296	\$ (1,407)	\$ (3,829)	\$ 66,060
PCD Non-Accruing	17,641	(5,494)	(3,105)	9,042
Total PCD loans	<u>\$ 88,937</u>	<u>\$ (6,901)</u>	<u>\$ (6,934)</u>	<u>\$ 75,102</u>

Premises and equipment

The estimated fair value of premises was measured based upon appraisals from independent third parties. The fair value of equipment was determined to approximate the carrying amount of these assets.

Note 2 — Business Combination — (Continued)**Core Deposit Intangible**

Fair value was determined by using income approach under ASC topic 820. This present value analysis calculates the expected after-tax cash flow benefits of each acquired core deposits type versus the cost of obtaining an alternative source of funding (brokered deposits and Federal Home Loan Bank borrowings) over the expected life of each acquired core deposits type, discounted at a long-term market oriented after-tax rate of return. The valuation also included assumptions related to expected account attrition, interest costs, and deposit maintenance cost and deposit fee income. The core deposit intangible was valued at \$10.3 million or 3.46% of core deposits. The core deposit intangible asset is being amortized on an accelerated basis over 10 years. Amortization expense for twelve months ended December 31, 2023, was \$1.03 million. Additional information is included in Note 9.

Deferred Tax Asset

The Company recorded a net deferred income tax asset of \$17.8 million related to tax attributes of Malvern Bank, along with the effects of fair value adjustments resulting from applying the purchase method of accounting.

Time Deposits

The estimated fair value of time deposits was determined using a discounted cash flow approach. The fair value of time deposit accounts was determined by compiling individual account data into groups of equal remaining maturities with corresponding calculated weighted average rates. Each maturity group's weighted average rate was compared to market rates for similar maturities and then priced to current market interest rates offered on time deposits with similar terms and maturities.

Borrowings and Subordinated Debt

The estimated fair value of short-term borrowings was determined to approximate the stated value. Subordinated debentures were valued using a discounted cash flow approach incorporating a discount rate that incorporated similar terms, maturity and credit rating.

Merger-Related Expenses

Costs related to the acquisition totaled \$8.5 million. These amounts were expensed as incurred and are recorded as merger-related expenses in the Consolidated Statements of Income. Merger-related expenses of \$7.7 million were incurred during the nine months ended September 30, 2023.

Supplemental Pro Forma Financial Information

The operations of Malvern have been integrated into the Company's existing operations and therefore separate results of operations or balance sheet information is not presented.

Note 3 – Other Comprehensive Loss

The components of accumulated other comprehensive loss included in stockholders' equity are as follows:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
	(in thousands)	
Net unrealized losses on investment securities available for sale	\$ (5,047)	\$ (7,541)
Income tax effect	1,274	1,823
Accumulated other comprehensive loss	<u>\$ (3,773)</u>	<u>\$ (5,718)</u>

Note 4 – Earnings Per Share

Basic earnings per share represent the effect of earnings upon the weighted average number of shares and participating securities outstanding for the period. Diluted earnings per share reflects the effect of earnings upon weighted average shares including the potential dilution that could occur if securities or contracts to issue common stock were converted or exercised, utilizing the treasury stock method. Unvested stock awards, which contain non-forfeitable rights to dividends whether paid or unpaid (i.e., participating securities), are included in the number of shares outstanding for both basic and diluted earnings per share. There are no securities that could potentially dilute basic earnings per share that were not included in the computation of diluted earnings per share.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 4 – Earnings Per Share (continued)

The following table presents a reconciliation of the calculation of basic and diluted earnings per share for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands, except per share data)			
Net income (loss) available to common stockholders	\$ 8,162	\$ (1,271)	\$ 31,747	\$ 12,517
Basic weighted average common shares outstanding	25,174	23,902	25,115	20,929
Effect of dilutive common stock equivalents	170	—	150	129
Diluted weighted average common shares outstanding	25,344	23,902	25,265	21,058
Basic earnings (loss) per common share	\$ 0.32	\$ (0.05)	\$ 1.26	\$ 0.60
Diluted earnings (loss) per common share	\$ 0.32	\$ (0.05)	\$ 1.26	\$ 0.59
Number of common stock equivalents excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average price of the common stock	535	759	577	630

Note 5 – Stock-Based Compensation

The Company has an equity incentive plan which allows for the grant of incentive options, non-qualified options and restricted stock to officers, employees and members of the Board of Directors. On April 24, 2024, the Company's shareholders approved the First Bank 2024 Equity Incentive Plan. Consistent with prior equity plans, the 2024 Equity Incentive Plan allows for the grant of incentive options, non-qualified options and restricted stock to officers, employees and members of the Board of Directors. The 2024 Equity Incentive Plan increased the number of awards available for grant to 1,300,000, at which time all awards available for grant under predecessor plans were cancelled.

The following table presents the number of awards authorized, cumulative granted awards, net of cancellations, and awards available for grant at September 30, 2024.

Awards authorized	3,483,683
Cumulative granted awards, net of cancellations	2,220,319
Awards available for grant	1,263,364

The Company issues shares from its authorized but unissued common stock to satisfy stock option exercises and restricted stock grants.

Stock-based compensation expense recognized in earnings for the three months ended September 30, 2024 and 2023 was \$532,000 and \$424,000, respectively. For the nine months ended September 30, 2024 and 2023 stock-based compensation expense was \$1.5 million and \$1.2 million, respectively.

The Company's stock option activity for the nine months ended September 30, 2024 and 2023 is summarized in the following tables:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding—December 31, 2023	722,017	\$ 10.61		
Granted	29,432	13.75		
Exercised	(54,792)	8.23		
Expired	(3,791)	13.59		
Outstanding — September 30, 2024	692,866	\$ 10.91	4.6	\$ 2,971,330
Exercisable— September 30, 2024	607,362	\$ 10.49	4.1	\$ 2,861,478

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 5 – Stock-Based Compensation (continued)

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding—December 31, 2022	714,140	\$ 10.12		
Granted	80,179	12.55		
Exercised	(5,000)	6.07		
Expired	(30,802)	10.35		
Outstanding — September 30, 2023	<u>758,517</u>	<u>\$ 10.39</u>	<u>5.1</u>	<u>\$ 1,246,900</u>
Exercisable— September 30, 2023	<u>621,601</u>	<u>\$ 9.83</u>	<u>4.3</u>	<u>\$ 1,223,016</u>

All granted options have a term that shall not exceed ten years and a vesting period of one to three years. The exercise price of the options granted must be at least 100% of the fair value of the Company's common stock on the date of the grant.

The aggregate intrinsic values in the preceding tables represents the pre-tax intrinsic values calculated by multiplying the number of in-the-money shares by the difference between the Company's closing stock price on the last trading day of the current reporting period and the exercise price.

Unrecognized compensation expense related to unvested stock options was \$261,000 as of September 30, 2024 which is expected to be recognized over a weighted average period of 1.7 years.

Restricted stock activity under the Company's stock-based compensation plans for the nine months September 30, 2024 and 2023 is summarized in the following tables:

	Restricted Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)
Outstanding—December 31, 2023	238,751	\$ 12.17	
Granted	171,555	12.10	
Vested	(117,778)	11.80	
Forfeited	(7,549)	12.33	
Outstanding — September 30, 2024	<u>284,979</u>	<u>\$ 12.28</u>	<u>2.5</u>

	Restricted Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)
Outstanding—December 31, 2022	180,330	\$ 11.19	
Granted	144,059	12.17	
Vested	(83,076)	12.20	
Forfeited	(2,779)	12.60	
Outstanding — September 30, 2023	<u>238,534</u>	<u>\$ 12.19</u>	<u>2.0</u>

All granted restricted stock awards have a vesting period of one to three years. Unrecognized compensation expense related to restricted stock was \$2.4 million as of September 30, 2024 which is expected to be recognized over a weighted average period of 1.8 years.

Note 6 – Investment Securities

Available-for-Sale ("AFS") Securities

The Company is required to conduct an impairment evaluation on AFS securities to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires the Company to reduce the security's amortized cost basis down to its fair value through earnings. The Company also evaluates the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under ASC Topic 326, and declines due to non-credit factors are recorded in accumulated other comprehensive income ("AOCI"), net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of taxes, on the Consolidated Statements of Financial Condition. Prior to implementation of ASC Topic 326, unrealized losses caused by a credit event would require the direct write-down of the AFS security through the other-than-temporary impairment approach.

The Company did not record an ACL on the AFS securities upon implementation of CECL on January 1, 2023, or at any date since, including September 30, 2024 and December 31, 2023. The Company considers the unrealized losses on the AFS securities to be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. In addition, the Company has the intent and ability to hold these AFS securities until the amortized cost is recovered and it is more likely than not that any of AFS securities in an unrealized loss position would not be required to be sold.

The Company does not estimate an allowance for credit losses on accrued interest receivable from AFS securities as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. Accrued interest receivable totaled \$295,000 and \$320,000 at September 30, 2024 and December 31, 2023, respectively, for AFS securities and was reported in accrued interest receivable on the accompanying Consolidated Statements of Financial Condition.

HTM Securities

The Company segments its HTM portfolio into agency residential mortgage-backed securities, obligations of state and political subdivisions and corporate obligations to determine the ACL. The ACL is determined based on the Company's historical losses, adjusted for qualitative factors including economic forecasts over a two-year reasonable and supportable forecast period. The Company has determined that for agency residential mortgage-backed securities it would be appropriate to assume the expected credit loss to be zero because these securities are guaranteed by enterprises that have credit ratings on par with the U.S. government or are guaranteed by the U.S. government. This assumption is reviewed and attested quarterly.

The Company does not estimate an allowance for credit losses on accrued interest receivable from HTM securities as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. Accrued interest receivable totaled \$310,000 and \$262,000 at September 30, 2024 and December 31, 2023, respectively, for HTM securities and was reported in accrued interest receivable on the accompanying Consolidated Statements of Financial Condition.

At September 30, 2024, the Company had no HTM securities that were past due 30 days or more as to principal or interest payments. The Company had no HTM securities classified as nonaccrual at September 30, 2024.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 6 – Investment Securities (continued)

The amortized cost, estimated fair value and allowance for credit losses of investment securities available for sale and held to maturity are as follows as of the dates indicated, with gross unrealized gains and losses therein:

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Investment securities available for sale				
U.S. Government-sponsored agency securities	\$ 2,000	\$ -	\$ -	\$ 2,000
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	46,912	258	(4,107)	43,063
Issued by GNMA	23,354	104	(1,264)	22,194
SBA pools	2,846	-	(13)	2,833
Asset-backed securities	481	-	(8)	473
Corporate obligations	4,003	-	(17)	3,986
Total	\$ 79,596	\$ 362	\$ (5,409)	\$ 74,549

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Investment securities available for sale				
U.S. Government-sponsored agency securities	\$ 19,500	\$ 7	\$ (403)	\$ 19,104
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	45,822	64	(5,287)	40,599
Issued by GNMA	23,345	-	(1,592)	21,753
U.S. Treasury securities	1,998	-	(13)	1,985
SBA Pools	3,175	-	(8)	3,167
Asset-backed securities	718	-	(20)	698
Corporate obligations	7,125	-	(289)	6,836
Total	\$ 101,683	\$ 71	\$ (7,612)	\$ 94,142

	September 30, 2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
(in thousands)					
Investment securities held to maturity					
Residential mortgage-backed securities:					
Issued by FNMA and FHLMC	\$ 10,022	\$ -	\$ (1,419)	\$ 8,603	\$ -
Issued by GNMA	461	-	(36)	425	-
Obligations of state and political subdivisions	6,882	54	(205)	6,731	(4)
Corporate obligations	26,500	8	(3,218)	23,290	(202)
Total	\$ 43,865	\$ 62	\$ (4,878)	\$ 39,049	\$ (206)

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
(in thousands)					
Investment securities held to maturity					
Residential mortgage-backed securities:					
Issued by FNMA and FHLMC	\$ 10,792	\$ -	\$ (1,611)	\$ 9,181	\$ -
Issued by GNMA	473	-	(40)	433	-
Obligations of state and political subdivisions	7,244	65	(276)	7,033	(4)
Corporate obligations	25,750	-	(3,911)	21,839	(196)
Total	\$ 44,259	\$ 65	\$ (5,838)	\$ 38,486	\$ (200)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 6 – Investment Securities (continued)

The following table presents the activity in the ACL for the held to maturity debt securities:

	<u>Obligations of state and political subdivisions</u>	<u>Corporate obligations</u>	<u>ACL Total</u>
	(in thousands)		
Three Months Ended September 30, 2024			
Balance—beginning of period	\$ 4	\$ 202	\$ 206
Credit loss expense	-	-	-
Balance—end of period	<u>\$ 4</u>	<u>\$ 202</u>	<u>\$ 206</u>

	<u>Obligations of state and political subdivisions</u>	<u>Corporate obligations</u>	<u>ACL Total</u>
	(in thousands)		
Three Months Ended September 30, 2023			
Balance—beginning of period	\$ 5	\$ 222	\$ 227
Credit loss expense	-	-	-
Balance—end of period	<u>\$ 5</u>	<u>\$ 222</u>	<u>\$ 227</u>

	<u>Obligations of state and political subdivisions</u>	<u>Corporate obligations</u>	<u>ACL Total</u>
	(in thousands)		
Nine Months Ended September 30, 2024			
Balance—beginning of period	\$ 4	\$ 196	\$ 200
Credit loss expense	-	6	6
Balance—end of period	<u>\$ 4</u>	<u>\$ 202</u>	<u>\$ 206</u>

	<u>Obligations of state and political subdivisions</u>	<u>Corporate obligations</u>	<u>ACL Total</u>
	(in thousands)		
Nine Months Ended September 30, 2023			
Balance—beginning of period	\$ -	\$ -	\$ -
Adoption of ASC Topic 326	5	219	224
Credit loss expense	-	3	3
Balance—end of period	<u>\$ 5</u>	<u>\$ 222</u>	<u>\$ 227</u>

The amortized cost, fair value and contractual maturities of investment securities available for sale and held to maturity are shown in the tables below. Certain of these securities have call features which allow the issuer to redeem the security prior to maturity at the issuer's discretion. Expected maturities may differ from contractual maturities because the underlying mortgages supporting mortgage-backed securities may be prepaid without penalties. Consequently, residential mortgage-backed securities are not presented by maturity category.

	September 30, 2024					
	<u>Available for Sale</u>			<u>Held to Maturity</u>		
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Weighted Average Yield ^{(1) (2)}</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Weighted Average Yield ^{(1) (2)}</u>
	(in thousands)					
Due within one year	\$ 2,000	\$ 2,000	5.10%	\$ 1,452	\$ 1,445	3.82%
Due after one year through five years	4,484	4,459	6.13%	4,070	3,967	5.77%
Due after five years through ten years	-	-	-	27,860	24,609	4.52%
Due after ten years	2,846	2,833	6.20%	-	-	-
Residential mortgage-backed securities:						
Issued by FNMA and FHLMC	46,912	43,063	3.19%	10,022	8,603	2.48%
Issued by GNMA	23,354	22,194	4.19%	461	425	3.50%
Total investment securities	<u>\$ 79,596</u>	<u>\$ 74,549</u>	<u>3.81%</u>	<u>\$ 43,865</u>	<u>\$ 39,049</u>	<u>4.14%</u>

(1) Tax equivalent using federal income tax rate of 21 percent.

(2) Weighted average yield is based on amortized cost.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 6 – Investment Securities (continued)

The unrealized losses, categorized by the length of time of continuous loss position, and the fair value of related investment securities available for sale are as follows, as of the dates indicated:

	September 30, 2024									
	Less than 12 months			12 months or longer			Total			
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	
Investment securities available for sale	(dollars in thousands)									
U.S. Government-sponsored agency securities	-	\$ -	\$ -	-	-	\$ -	-	\$ -	\$ -	-
Residential mortgage-backed securities:										
Issued by FNMA and FHLMC	-	-	-	24	26,493	(4,107)	24	26,493	(4,107)	
Issued by GNMA	2	3,432	(12)	9	10,188	(1,252)	11	13,620	(1,264)	
SBA pools	1	1,477	(4)	1	1,356	(9)	2	2,833	(13)	
Asset-backed securities	-	-	-	1	472	(8)	1	472	(8)	
Corporate obligations	1	3,000	(3)	1	986	(14)	2	3,986	(17)	
Total	4	\$7,909	\$ (19)	36	\$39,495	\$ (5,390)	40	\$47,404	\$ (5,409)	

	December 31, 2023									
	Less than 12 months			12 months or longer			Total			
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	
Investment securities available for sale	(dollars in thousands)									
U.S. Government-sponsored agency securities	2	\$ 4,989	\$ (11)	4	\$ 11,109	\$ (391)	6	\$ 16,098	\$ (402)	
Residential mortgage-backed securities:										
Issued by FNMA and FHLMC	1	47	(1)	36	31,585	(5,287)	37	31,632	(5,288)	
Issued by GNMA	3	5,813	(69)	10	9,922	(1,523)	13	15,735	(1,592)	
U.S. Treasury securities	-	-	-	1	1,985	(13)	1	1,985	(13)	
SBA pools	1	1,667	(8)	-	-	-	1	1,667	(8)	
Asset-backed securities	-	-	-	1	698	(20)	1	698	(20)	
Corporate obligations	1	978	(22)	2	5,858	(267)	3	6,836	(289)	
Total	8	\$13,494	\$ (111)	54	\$61,157	\$ (7,501)	62	\$74,651	\$ (7,612)	

The unrealized losses, categorized by the length of time of continuous loss position, and the fair value of related investment securities held to maturity are as follows, as of the dates indicated.

	September 30, 2024									
	Less than 12 months			12 months or longer			Total			
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	
Investment securities held to maturity	(dollars in thousands)									
Residential mortgage-backed securities:										
Issued by FNMA and FHLMC	-	\$ -	\$ -	16	\$ 8,603	\$ (1,419)	16	\$ 8,603	\$ (1,419)	
Issued by GNMA	-	-	-	1	425	(36)	1	425	(36)	
Obligations of state and political subdivisions	-	-	-	10	3,789	(205)	10	3,789	(205)	
Corporate obligations	-	-	-	22	21,782	(3,218)	22	21,782	(3,218)	
Total	-	\$ -	\$ -	49	\$34,599	\$ (4,878)	49	\$34,599	\$ (4,878)	

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 6 – Investment Securities (continued)

	December 31, 2023								
	Less than 12 months			12 months or longer			Total		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
Investment securities held to maturity	(dollars in thousands)								
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	-	\$ -	\$ -	16	\$ 9,181	\$ (1,611)	16	\$ 9,181	\$ (1,611)
Issued by GNMA	-	-	-	1	432	(40)	1	432	(40)
Obligations of state and political subdivisions	-	-	-	13	4,854	(276)	13	4,854	(276)
Corporate obligations	-	-	-	23	21,839	(3,911)	23	21,839	(3,911)
Total	-	\$ -	\$ -	53	\$36,306	\$ (5,838)	53	\$36,306	\$ (5,838)

During the three and nine months ended September 30, 2024, the Company sold approximately \$11.7 million in AFS securities for a realized loss of \$555,000. During the three and nine months ended September 30, 2023, the Company sold approximately \$81.6 million and \$88.2 million, respectively, in available for sale securities for a realized loss of \$527,000 and \$734,000, respectively.

Investment securities with a market value of \$1.4 million and \$47.7 million, respectively, were pledged as collateral for municipal deposits and borrowings at September 30, 2024. Investment securities with a market value of \$2.1 million and \$84.7 million, respectively, were pledged as collateral for municipal deposits and borrowings at December 31, 2023.

Note 7 – Loans and Allowance for Credit Losses on Loans

The composition of loans is as follows as of the dates indicated:

	September 30, 2024	December 31, 2023
	(in thousands)	
Commercial and industrial	\$ 546,541	\$ 506,849
Commercial real estate:		
Owner-occupied	688,988	612,352
Investor	1,170,508	1,221,702
Construction and development	193,460	186,829
Multi-family	267,861	271,058
Residential real estate:		
Residential mortgage and first lien home equity loans	144,081	156,024
Home equity—second lien loans and revolving lines of credit	49,763	44,698
Consumer and other	29,518	25,343
	<u>3,090,720</u>	<u>3,024,855</u>
Net deferred loan fees and costs	(3,232)	(3,354)
Total loans	\$ 3,087,488	\$ 3,021,501

Total loans included \$2.4 million in loans held for sale as of December 31, 2023. There were no loans held for sale as of September 30, 2024. Mortgage and Small Business Administration (“SBA”) loans originated and intended for sale in the secondary market are included in loans held for sale and are reported at the lower of cost or fair value, as determined by the aggregate commitments from investors or current investor yield requirements.

Accrued interest receivable is not included in the amortized cost basis of the Company’s loans. Additionally, the Company does not estimate an allowance for credit losses on accrued interest receivable as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. When a loan is placed on nonaccrual status, which occurs when a borrower becomes delinquent by 90 days, interest previously accrued but not collected is reversed against current period interest income. Accrued interest receivable for loans totaled \$12.5 million and \$13.7 million at September 30, 2024 and December 31, 2023, respectively, with no related ACL and was reported in accrued interest receivable on the accompanying Consolidated Statements of Financial Condition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The following table summarizes the Company's loans by year of origination and internally assigned credit risk rating at September 30, 2024 and gross charge offs for the nine months ended September 30, 2024. See the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as filed with the FDIC for additional information about asset classifications. There were no loans classified as "doubtful" or "loss" as of September 30, 2024 and December 31, 2023.

	Loans by Year of Origination at September 30, 2024						Revolving	Total	
	2024	2023	2022	2021	2020	Prior			
	(in thousands)								
Commercial and industrial									
Pass	\$ 48,730	\$ 65,990	\$ 59,328	\$ 39,307	\$ 10,346	\$ 33,269	\$ 270,305	\$ 527,275	
Special Mention	-	4,957	-	1,910	680	2,887	2,506	12,940	
Substandard	-	-	65	-	-	6,261	-	6,326	
Total Commercial and industrial	\$ 48,730	\$ 70,947	\$ 59,393	\$ 41,217	\$ 11,026	\$ 42,417	\$ 272,811	\$ 546,541	
YTD gross charge-offs	\$ -	\$ 365	\$ 170	\$ -	\$ -	\$ 310	\$ -	\$ 845	
Owner-occupied									
Pass	\$ 111,861	\$ 61,914	\$ 102,432	\$ 96,335	\$ 65,518	\$ 193,644	\$ 10,121	\$ 641,825	
Special Mention	-	-	21,486	-	3,221	10,813	4,800	40,320	
Substandard	-	-	842	-	-	6,001	-	6,843	
Total Owner-occupied	\$ 111,861	\$ 61,914	\$ 124,760	\$ 96,335	\$ 68,739	\$ 210,458	\$ 14,921	\$ 688,988	
YTD gross charge-offs	\$ -	\$ -	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ 15	
Investor									
Pass	\$ 53,860	\$ 57,488	\$ 201,017	\$ 187,241	\$ 122,733	\$ 540,286	\$ 5,057	\$ 1,167,682	
Substandard	-	-	-	-	-	2,826	-	2,826	
Total Investor	\$ 53,860	\$ 57,488	\$ 201,017	\$ 187,241	\$ 122,733	\$ 543,112	\$ 5,057	\$ 1,170,508	
YTD gross charge-offs ⁽¹⁾	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,494	\$ -	\$ 5,494	
Construction and development									
Pass	\$ 27,266	\$ 51,537	\$ 82,495	\$ 8,926	\$ -	\$ 17,927	\$ 5,186	\$ 193,337	
Substandard	-	-	-	-	-	123	-	123	
Total Construction and development	\$ 27,266	\$ 51,537	\$ 82,495	\$ 8,926	\$ -	\$ 18,050	\$ 5,186	\$ 193,460	
Multi-family									
Pass	\$ 8,408	\$ 27,245	\$ 56,230	\$ 59,345	\$ 51,637	\$ 64,645	\$ 149	\$ 267,659	
Substandard	-	-	-	-	-	202	-	202	
Total Multi-family	\$ 8,408	\$ 27,245	\$ 56,230	\$ 59,345	\$ 51,637	\$ 64,847	\$ 149	\$ 267,861	
Residential mortgage and first lien home equity loans									
Pass	\$ 5,849	\$ 7,488	\$ 17,372	\$ 16,327	\$ 23,823	\$ 69,509	\$ 97	\$ 140,465	
Substandard	-	-	-	355	-	3,261	-	3,616	
Total Residential mortgage and first lien home equity loans	\$ 5,849	\$ 7,488	\$ 17,372	\$ 16,682	\$ 23,823	\$ 72,770	\$ 97	\$ 144,081	
Home equity—second lien loans and revolving lines of credit									
Pass	\$ 1,522	\$ 2,266	\$ 1,320	\$ 158	\$ 160	\$ 4,501	\$ 39,391	\$ 49,318	
Special Mention	-	-	-	-	-	15	-	15	
Substandard	-	-	-	-	-	430	-	430	
Total Home equity—second lien loans and revolving lines of credit	\$ 1,522	\$ 2,266	\$ 1,320	\$ 158	\$ 160	\$ 4,946	\$ 39,391	\$ 49,763	
Consumer and other									
Pass	\$ 2,163	\$ 3,300	\$ 2,103	\$ 3,145	\$ 2,086	\$ 1,093	\$ 15,624	\$ 29,514	
Substandard	-	-	-	-	-	4	-	4	
Total Consumer and other	\$ 2,163	\$ 3,300	\$ 2,103	\$ 3,145	\$ 2,086	\$ 1,097	\$ 15,624	\$ 29,518	
YTD gross charge-offs	\$ 12	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 13	
Total Loans									
Pass	\$ 259,659	\$ 277,228	\$ 522,297	\$ 410,784	\$ 276,303	\$ 924,874	\$ 345,930	\$ 3,017,075	
Special Mention	-	4,957	21,486	1,910	3,901	13,715	7,306	53,275	
Substandard	-	-	907	355	-	19,108	-	20,370	
Total Loans	\$ 259,659	\$ 282,185	\$ 544,690	\$ 413,049	\$ 280,204	\$ 957,697	\$ 353,236	\$ 3,090,720	
YTD gross charge-offs ⁽¹⁾	\$ 12	\$ 365	\$ 185	\$ -	\$ -	\$ 5,805	\$ -	\$ 6,367	

(1) Includes \$5.5 million in a PCD loan charge-off which was reserved for through acquisition accounting marks at the time of the Malvern acquisition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

	Loans by Year of Origination at December 31, 2023							Revolving	Total
	2023	2022	2021	2020	2019	Prior			
Commercial and industrial	(in thousands)								
Pass	\$ 86,023	\$ 63,991	\$ 50,128	\$ 11,901	\$ 15,172	\$ 26,429	\$ 241,671	\$ 495,315	
Special Mention	-	36	-	-	326	619	2,411	3,392	
Substandard	-	65	-	-	5,546	811	1,720	8,142	
Total Commercial and industrial	\$ 86,023	\$ 64,092	\$ 50,128	\$ 11,901	\$ 21,044	\$ 27,859	\$ 245,802	\$ 506,849	
YTD gross charge-offs	\$ 245	\$ 473	\$ -	\$ -	\$ 204	\$ 719	\$ -	\$ 1,641	
Owner-occupied									
Pass	\$ 71,346	\$ 131,020	\$ 112,728	\$ 68,037	\$ 33,001	\$ 176,311	\$ 874	\$ 593,317	
Special Mention	-	-	-	3,282	1,356	3,006	4,800	12,444	
Substandard	-	-	-	-	2,692	3,899	-	6,591	
Total Owner-occupied	\$ 71,346	\$ 131,020	\$ 112,728	\$ 71,319	\$ 37,049	\$ 183,216	\$ 5,674	\$ 612,352	
YTD gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ 72	\$ -	\$ -	\$ 72	
Investor									
Pass	\$ 56,764	\$ 197,278	\$ 178,580	\$ 134,279	\$ 132,050	\$ 473,569	\$ 16,656	\$ 1,189,176	
Special Mention	-	-	-	-	-	20,738	-	20,738	
Substandard	-	-	-	-	-	11,788	-	11,788	
Total Investor	\$ 56,764	\$ 197,278	\$ 178,580	\$ 134,279	\$ 132,050	\$ 506,095	\$ 16,656	\$ 1,221,702	
Construction and development									
Pass	\$ 33,034	\$ 85,459	\$ 22,970	\$ -	\$ 697	\$ 17,201	\$ 25,748	\$ 185,109	
Special Mention	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	1,720	-	1,720	
Total Construction and development	\$ 33,034	\$ 85,459	\$ 22,970	\$ -	\$ 697	\$ 18,921	\$ 25,748	\$ 186,829	
Multi-family									
Pass	\$ 24,230	\$ 63,422	\$ 52,709	\$ 53,786	\$ 29,611	\$ 45,691	\$ 1,387	\$ 270,836	
Special Mention	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	222	-	222	
Total Multi-family	\$ 24,230	\$ 63,422	\$ 52,709	\$ 53,786	\$ 29,611	\$ 45,913	\$ 1,387	\$ 271,058	
YTD gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123	\$ -	\$ 123	
Residential mortgage and first lien home equity loans									
Pass	\$ 8,214	\$ 18,975	\$ 17,592	\$ 24,626	\$ 10,709	\$ 69,805	\$ 185	\$ 150,106	
Special Mention	-	-	-	-	-	-	-	-	
Substandard	-	-	362	517	1,329	3,710	-	5,918	
Total Residential mortgage and first lien home equity loans	\$ 8,214	\$ 18,975	\$ 17,954	\$ 25,143	\$ 12,038	\$ 73,515	\$ 185	\$ 156,024	
Home equity—second lien loans and revolving lines of credit									
Pass	\$ 2,382	\$ 1,468	\$ 205	\$ 177	\$ 733	\$ 5,225	\$ 34,185	\$ 44,375	
Special Mention	-	-	-	-	-	45	-	45	
Substandard	-	-	-	-	-	278	-	278	
Total Home equity—second lien loans and revolving lines of credit	\$ 2,382	\$ 1,468	\$ 205	\$ 177	\$ 733	\$ 5,548	\$ 34,185	\$ 44,698	
Consumer and other									
Pass	\$ 3,659	\$ 2,245	\$ 218	\$ 2,587	\$ 156	\$ 1,109	\$ 15,363	\$ 25,337	
Special Mention	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	6	-	6	
Total Consumer and other	\$ 3,659	\$ 2,245	\$ 218	\$ 2,587	\$ 156	\$ 1,115	\$ 15,363	\$ 25,343	
YTD gross charge-offs	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	
Total Loans									
Pass	\$ 285,652	\$ 563,858	\$ 435,130	\$ 295,393	\$ 222,129	\$ 815,340	\$ 336,069	\$ 2,953,571	
Special Mention	-	36	-	3,282	1,682	24,408	7,211	36,619	
Substandard	-	65	362	517	9,567	22,434	1,720	34,665	
Total Loans	\$ 285,652	\$ 563,959	\$ 435,492	\$ 299,192	\$ 233,378	\$ 862,182	\$ 345,000	\$ 3,024,855	
YTD gross charge-offs	\$ 250	\$ 473	\$ -	\$ -	\$ 276	\$ 842	\$ -	\$ 1,841	

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

The performance and credit quality of the loan portfolio is also monitored by analyzing the length of time a scheduled contractual payment is past due. The following tables present the classes of the loan portfolio summarized by past due status as of the dates indicated:

	September 30, 2024							
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	PCD Non- accruing	Total Past Due	Total Current	Total
	(in thousands)							
Commercial and industrial	\$ 1,677	\$ 163	\$ -	\$ 972	\$ 443	\$ 3,255	\$ 543,286	\$ 546,541
Commercial real estate:								
Owner-occupied	1,478	376	-	4,449	2,395	8,698	680,290	688,988
Investor	1,559	-	-	-	-	1,559	1,168,949	1,170,508
Construction and development	809	-	-	-	123	932	192,528	193,460
Multi-family	-	-	-	202	-	202	267,659	267,861
Residential real estate:								
Residential mortgage and first lien home equity loans	1,701	297	-	892	2,164	5,054	139,027	144,081
Home equity—second lien loans and revolving lines of credit	461	21	-	370	-	852	48,911	49,763
Consumer and other	2	-	-	4	-	6	29,512	29,518
Total	\$ 7,687	\$ 857	\$ -	\$ 6,889	\$ 5,125	\$20,558	\$3,070,162	\$3,090,720

	December 31, 2023							
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	PCD Non- accruing	Total Past Due	Total Current	Total
	(in thousands)							
Commercial and industrial	\$ 531	\$ -	\$ -	\$ 2,567	\$ 479	\$ 3,577	\$ 503,272	\$ 506,849
Commercial real estate:								
Owner-occupied	4,293	173	-	2,541	2,498	9,505	602,847	612,352
Investor	3,215	-	125	-	11,493	14,833	1,206,869	1,221,702
Construction and development	1,545	-	-	-	176	1,721	185,108	186,829
Multi-family	-	-	-	222	-	222	270,836	271,058
Residential real estate:								
Residential mortgage and first lien home equity loans	2,405	-	-	2,286	2,383	7,074	148,950	156,024
Home equity—second lien loans and revolving lines of credit	680	84	-	213	-	977	43,721	44,698
Consumer and other	29	1	-	6	-	36	25,307	25,343
Total	\$ 12,698	\$ 258	\$ 125	\$ 7,835	\$ 17,029	\$37,945	\$2,986,910	\$3,024,855

Loans are placed on nonaccrual status when management determines that the full repayment of principal and collection of interest according to contractual terms is no longer likely, generally when the loan becomes 90 days or more past due. Interest previously accrued on nonaccrual loans but not collected is reversed against current period interest income.

Nonaccrual loans by loan portfolio class, including loans acquired with credit deterioration, as of September 30, 2024 and December 31, 2023 are summarized as follows:

	September 30, 2024		
	Non-Accrual and PCD Non-Accruing Loans		
	With a Related Allowance	Without a Related Allowance	Total
	(in thousands)		
Commercial and industrial	\$ 379	\$ 1,036	\$ 1,415
Commercial real estate:			
Owner-occupied	703	6,141	6,844
Construction and development	-	123	123
Multi-family	-	202	202
Residential real estate:			
Residential mortgage and first lien home equity loans	524	2,532	3,056
Home equity—second lien loans and revolving lines of credit	-	370	370
Consumer and other	-	4	4
Total	\$ 1,606	\$ 10,408	\$ 12,014

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

	December 31, 2023		
	Non-Accrual and PCD Non-Accruing Loans		
	With a Related Allowance	Without a Related Allowance	Total
	(in thousands)		
Commercial and industrial	\$ 379	\$ 2,667	\$ 3,046
Commercial real estate:			
Owner-occupied	730	4,309	5,039
Investor	11,493	-	11,493
Construction and development	-	176	176
Multi-family	-	222	222
Residential real estate:			
Residential mortgage and first lien home equity loans	562	4,107	4,669
Home equity—second lien loans and revolving lines of credit	-	213	213
Consumer and other	-	6	6
Total	\$ 13,164	\$ 11,700	\$ 24,864

The total recorded investment in loans secured by residential real estate property that were in the process of foreclosure was \$428,000 and \$330,000 at September 30, 2024 and December 31, 2023, respectively. The Company had no foreclosed residential real estate property held at September 30, 2024 or December 31, 2023.

Loans totaling \$658.3 million and \$560.1 million at September 30, 2024 and December 31, 2023, respectively, were pledged as collateral for Federal Home Loan Bank ("FHLB") borrowings.

The outstanding principal balance and related carrying amount of PCD non-accruing loans were as follows as of the dates indicated:

	September 30, 2024	December 31, 2023
	(in thousands)	
Outstanding principal balance	\$ 8,745	\$ 24,864
Carrying amount	5,125	17,029

The Company adopted the current expected credit loss accounting guidance, CECL, and all related amendments as of January 1, 2023. The guidance in CECL replaces the incurred loss methodology. The Company has developed an ACL methodology effective January 1, 2023, which replaces its previous allowance for loan losses methodology. The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Credit quality within the loan portfolio is continuously monitored by management and is reflected within the ACL on loans. The ACL on loans is an estimate of lifetime expected losses inherent within the Company's existing loan portfolio.

The CECL model is primarily based on a vintage approach which estimates future losses over the expected life of the loan based on historical loan charge offs, net of recoveries and adjusted for certain qualitative factors. Based on the nature of the acquired Malvern loan portfolio and the loan data available, the Company utilizes a probability of default/loss given default method for these loans. Both methodologies utilize key assumptions and projections such as the expected life of each loan segment and economic projections. Key assumptions and projections are evaluated on at least a quarterly basis. During the nine months, the Company continued to use the vintage approach and probability of default/loss given default and did not make any significant changes to the model or the key assumptions. The ACL decreased during the nine months ended September 30, 2024 primarily due to a \$5.5 million charge-off of a specific reserve on a PCD loan that was moved to other real estate owned during the quarter ended March 31, 2024. The \$5.5 million was reserved for through purchase accounting marks at the time of the Malvern acquisition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

The following table presents the activity in the allowance for credit losses on loans by loan class for the periods indicated:

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
Three Months Ended September 30, 2024									
Balance—beginning of period	\$ 14,818	\$ 5,229	\$ 8,287	\$ 2,380	\$ 2,806	\$ 1,168	\$ 997	\$ 567	\$ 36,252
Charge offs	(398)	(15)	-	-	-	-	-	(7)	(420)
Recoveries	18	13	-	-	3	-	-	-	34
Credit loss expense (benefit)	336	1,252	560	(434)	(443)	31	251	15	1,568
Balance—end of period	\$ 14,774	\$ 6,479	\$ 8,847	\$ 1,946	\$ 2,366	\$ 1,199	\$ 1,248	\$ 575	\$ 37,434

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
Three Months Ended September 30, 2023									
Balance—beginning of period	\$ 11,165	\$ 4,536	\$ 7,539	\$ 1,778	\$ 3,342	\$ 1,076	\$ 680	\$ 335	\$ 30,451
ACL on PCD acquired loans	231	110	6,428	31	-	67	33	1	6,901
Charge offs	(1,124)	-	-	-	(123)	-	-	-	(1,247)
Recoveries	111	13	-	-	-	1	-	-	125
Credit loss expense (benefit)	2,943	522	1,724	486	327	236	278	134	6,650
Balance—end of period	\$ 13,326	\$ 5,181	\$ 15,691	\$ 2,295	\$ 3,546	\$ 1,380	\$ 991	\$ 470	\$ 42,880

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
Nine Months Ended September 30, 2024									
Balance—beginning of period	\$ 14,195	\$ 4,965	\$ 14,887	\$ 2,482	\$ 3,079	\$ 1,310	\$ 926	\$ 553	\$ 42,397
Charge offs ⁽¹⁾	(845)	(15)	(5,494)	-	-	-	-	(13)	(6,367)
Recoveries	456	37	-	-	19	-	-	-	512
Credit loss expense (benefit)	968	1,492	(546)	(536)	(732)	(111)	322	35	892
Balance—end of period	\$ 14,774	\$ 6,479	\$ 8,847	\$ 1,946	\$ 2,366	\$ 1,199	\$ 1,248	\$ 575	\$ 37,434

(1) Includes \$5.5 million in a PCD loan charge-off which was reserved for through acquisition accounting marks at the time of the Malvern acquisition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

	Residential real estate								
	Commercial and industrial	Commercial real estate				Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
		Owner-occupied	Investor	Construction and development	Multi-family				
(in thousands)									
Nine Months Ended September 30, 2023									
Balance—beginning of period	\$ 6,256	\$ 5,466	\$ 9,623	\$ 1,447	\$ 1,930	\$ 444	\$ 182	\$ 126	\$ 25,474
Adoption of ASC Topic 326	3,756	(1,367)	(1,992)	474	1,344	545	587	299	3,646
ACL on PCD acquired loans	231	110	6,428	31	-	67	33	1	6,901
Charge offs	(1,396)	(72)	-	-	(123)	-	-	(2)	(1,593)
Recoveries	153	108	-	-	-	3	-	-	264
Credit loss expense (benefit)	4,326	936	1,632	343	395	321	189	46	8,188
Balance—end of period	\$ 13,326	\$ 5,181	\$ 15,691	\$ 2,295	\$ 3,546	\$ 1,380	\$ 991	\$ 470	\$ 42,880

The decrease in provision compared to the same period in 2023 was primarily due to the initial provision of \$5.5 million for the non-PCD loans acquired in 2023 as part of the business combination discussed in Note 2, as well as the Bank's stable asset quality, lower level of loan growth and the decrease in past due loans.

The Company also records an ACL for unfunded loan commitments that is recorded in other liabilities in the Consolidated Statements of Financial Condition. The ACL on unfunded loan commitments is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience and credit risk. The credit risk is evaluated similarly to the analysis for the ACL on loans. Net adjustments to the reserve for unfunded loan commitments are recorded to credit loss expense. The ACL on unfunded loan commitments totaled \$536,000 and \$490,000 at September 30, 2024 and December 31, 2023, respectively.

Loans are collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. The expected credit loss for collateral dependent loans is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral, which is adjusted to reflect the estimated cost to sell. Fair value estimates for collateral dependent loans are derived from appraised values based on the current market value or the "as is" value of the collateral, normally from recently received and reviewed appraisals. Current appraisals are ordered on a regular basis based on the inspection date or more often if market conditions necessitate. If the calculated expected credit loss is determined to be permanent or not recoverable, the amount of the expected credit loss is charged off.

During the current quarter, there were no significant changes to the underlying collateral and there was no deterioration noted in the collateral. Total collateral dependent loans include one partially charged-off loan in the amount of \$862,000 and \$968,000 at September 30, 2024 and December 31, 2023, respectively.

The following table discloses collateral dependent loans as of the dates indicated:

	Collateral class	September 30, 2024	December 31, 2023
(in thousands)			
Commercial and industrial	Business Assets	\$ 1,080	\$ 2,264
Commercial real estate:			
Owner-occupied	Commercial real estate	7,276	5,039
Investor	Commercial real estate	96	11,493
Construction and development	Land	123	176
Multi-family	Commercial real estate	202	222
Residential real estate:			
Residential mortgage and first lien home equity loans	Residential real estate	3,248	4,668
Home equity—second lien loans and revolving lines of credit	Residential real estate	370	213
Total		\$ 12,395	\$ 24,075

Loans are measured for impairment on a loan-by-loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 7 – Loans and Allowance for Credit Losses on Loans (continued)
Loan Modifications to Borrowers Experiencing Financial Difficulty

The Company adopted Accounting Standards Update (“ASU”) 2023-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures (“ASU 2023-02”) effective January 1, 2023. The amendments in ASU 2023-02 eliminated the recognition and measure of TDRs and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. These modifications may include a reduction in interest rate, an extension in term, principal forgiveness and/or other than insignificant payment delay. 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 charged off.

For the three and nine months ended September 30, 2024, all loan modifications were term extensions. As of September 30, 2024 and December 31, 2023, loans with modifications to borrowers experiencing financial difficulty totaled \$4.6 million and \$0, respectively. For the nine months ended September 30, 2023, one commercial and industrial loan with a balance of \$22,000 at September 30, 2023 was modified, whereby the borrower was experiencing financial difficulty at the time of modification. The modification was a principal reduction and resulted in a charge off in the amount of \$272,000. The remaining balance was paid off by December 31, 2023. There were no outstanding commitments to lend additional funds to such borrowers with loan modifications as of September 30, 2024 or December 31, 2023.

The following table presents loans modifications made to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2024:

	<u>Term Extension</u>	<u>Total</u>	<u>% of Total by Loan Portfolio Segment</u>
	(in thousands)		
Three Months Ended September 30, 2024			
Commercial and industrial	\$ 15	\$ 15	0.00%
	<u>\$ 15</u>	<u>\$ 15</u>	<u>0.00%</u>

All term extensions included in the table above were between six to nine months.

	<u>Term Extension</u>	<u>Total</u>	<u>% of Total by Loan Portfolio Segment</u>
	(in thousands)		
Nine Months Ended September 30, 2024			
Commercial and industrial	\$ 910	\$ 910	0.17%
Commercial real estate:			
Owner-occupied	3,536	3,536	0.51%
Construction and development	123	123	0.06%
Residential real estate:			
Residential mortgage and first lien home equity loans	79	79	0.05%
Total	<u>\$ 4,648</u>	<u>\$ 4,648</u>	<u>0.15%</u>

All term extensions included in the table above were between six to nine months.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 7 – Loans and Allowance for Credit Losses on Loans (continued)

The following table provides the performance of loans modified to borrowers experiencing financial difficulty:

	<u>Current</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days or More Past Due and Still Accruing</u>	<u>Nonaccrual</u>	<u>Total</u>
	(in thousands)					
September 30, 2024						
Commercial and industrial	\$ 328	\$ -	\$ -	\$ -	\$ 582	\$ 910
Commercial real estate:						
Owner-occupied	-	-	-	-	3,536	3,536
Construction and development	-	-	-	-	123	123
Residential real estate:						
Residential mortgage and first lien home equity loans	-	-	-	-	79	79
Total	<u>\$ 328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,320</u>	<u>\$ 4,648</u>

Note 8 - Deposits

The major types of deposits at September 30, 2024 and December 31, 2023 were as follows:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
	(in thousands)	
Non-interest bearing demand deposits	\$ 519,079	\$ 501,763
Interest bearing demand deposits	597,802	629,110
Money market deposits	1,085,987	1,011,591
Savings deposits	149,650	159,849
Time deposits	697,552	665,256
Total deposits	<u>\$ 3,050,070</u>	<u>\$ 2,967,569</u>

The aggregate amount of demand and savings deposit overdrafts that has been reclassified as loans was \$195,000 and \$308,000 at September 30, 2024 and December 31, 2023, respectively. Included in time deposits at September 30, 2024 and December 31, 2023 was \$159.1 million and \$141.2 million, respectively, of deposits of \$250,000 or more. The Company had \$244.4 million and \$211.6 million in brokered deposits at September 30, 2024 and December 31, 2023, respectively.

Note 9 – Borrowings and Subordinated Debentures

The balance in borrowings at September 30, 2024 and December 31, 2023 consisted of FHLB advances and other secured borrowings. FHLB advances are secured by pledges of certain eligible collateral, including U.S. government and agency mortgage-backed securities and commercial loans. All of the Company's outstanding FHLB advances are fixed rate with original maturity periods ranging from five months to three years. All of the FHLB advances are interest only with a balloon payment due at maturity. One advance, in the amount of \$100 million, issued on August 19, 2024 with a final maturity on August 19, 2027 has a one-time put option one year from the date of the issuance. FHLB advances and other secured borrowings totaled \$230.0 million and \$7.0 million, respectively, at September 30, 2024. FHLB advances and other secured borrowings totaled \$167.4 million and \$11.7 million, respectively, at December 31, 2023. FHLB advances had a weighted average interest rate of 4.44% and 4.89% at September 30, 2024 and December 31, 2023, respectively.

As a member of the FHLB, the Company is eligible to borrow funds up to 50% of total assets from the FHLB subject to its stock and collateral requirements. Based on available qualified collateral as of September 30, 2024, the Company had the ability to borrow an additional \$226.2 million from the FHLB. The Company's borrowing facility at September 30, 2024 included \$672,000 in pledged securities, and \$658.3 million in commercial real estate loan collateral. At December 31, 2023, the Company had \$887,000 in pledged securities, and \$560.1 million in commercial real estate loan collateral. The Company's borrowing capacity with the Federal Reserve Bank at September 30, 2024 and December 31, 2023 was \$45.5 million and \$72.2 million, respectively, based on qualified investment security collateral. The Company had no outstanding borrowings from the Federal Reserve Bank at September 30, 2024 or December 31, 2023.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**Note 9 – Borrowings and Subordinated Debentures (continued)**

The following table presents the contractual maturities of the Company's borrowings at September 30, 2024:

	<u>September 30, 2024</u>
	<u>(in thousands)</u>
October 1, 2024 - September 30, 2025	\$ 80,000
October 1, 2025 - September 30, 2026	50,000
October 1, 2026 - September 30, 2027	100,000
October 1, 2027 - September 30, 2028	-
October 1, 2028 - September 30, 2029	-
Thereafter	6,999
Total	<u>\$ 236,999</u>

The Company also had lines of credit for short-term borrowings with three correspondent banks at September 30, 2024 and December 31, 2023 totaling \$85.0 million and \$80.0 million, respectively. There were no borrowings on these facilities at either date.

Subordinated debentures totaled \$29.9 million and \$55.3 million at September 30, 2024 and December 31, 2023, respectively. On May 29, 2020, the Company completed a \$30.0 million private placement of fixed-to-floating rate subordinated debentures. The notes have a maturity date of June 1, 2030 and carry a fixed interest rate of 5.50% for the first five years. Thereafter, the notes will pay interest at SOFR plus 5.38%. The notes include a right of prepayment, without penalty, on or after June 1, 2025. The subordinated debentures qualify as Tier II capital for regulatory capital purposes. The subordinated debentures, net, totaled \$29.9 million at September 30, 2024, which includes \$74,000 of debt issuance costs that are being amortized over the expected life. Principal payment of these subordinate debentures is not due until maturity. As a part of Malvern acquisition, the Company assumed \$25.5 million of subordinated notes, which included \$419,000 of fair value adjustment premium at December 31, 2023, which was being amortized over the expected life. These Subordinate Debentures were retired on February 15, 2024. The remaining fair value adjustment of \$409,000 was amortized at retirement.

Note 10 – Goodwill and Other Intangible Assets

The Company's intangible assets consist of goodwill and core deposit intangibles that were recorded in connection with acquisitions. Intangible assets also include loan servicing rights related to loan servicing retained in connection with the origination and sale of loans guaranteed by the Small Business Administration.

Goodwill arising from acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the acquired companies or branches. None of the goodwill is expected to be deductible for income tax purposes. Goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. The Company may elect to perform a qualitative assessment for the annual impairment test. If the qualitative assessment indicates it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if the Company elects not to perform a qualitative assessment, then the Company would be required to perform a quantitative test for goodwill impairment. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is impaired and is written down to its estimated fair value.

The Company performed a qualitative assessment of goodwill as of August 31, 2024, which is the Company's established annual assessment date, and determined that none of the Company's goodwill was impaired as of August 31, 2024. As of September 30, 2024 and December 31, 2023, no triggering events were identified. Therefore, the Company did not perform an interim impairment evaluation.

The Company's core deposit intangibles are included in other intangible assets, net, on the Consolidated Statements of Financial Condition and are amortized on an accelerated basis using an estimated life of ten years. An impairment loss would be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 10 – Goodwill and Other Intangible Assets (continued)

A portion of certain SBA loans originated by the Company are sold to third parties, however, the Company may retain the servicing rights related to these loans. An intangible asset, referred to as loan servicing rights (“LSRs”), is recognized when a loan’s servicing rights are retained upon the sale of a loan. All of the Company’s LSRs relate to the sold portion of SBA loans and are similar in nature. LSRs are initially recorded at fair value based on a valuation model which calculates the present value of estimated future servicing income and are included in other intangible assets, net, on the Consolidated Statements of Financial Condition. LSRs are amortized over the period of the economic life of the assets arising from estimated net servicing revenues. LSRs are evaluated quarterly for impairment based upon the fair value of the LSRs as compared to the carrying amounts. The amortization of the LSRs is recorded as a reduction to servicing income received, which is included in loan fees on the Consolidated Statements of Income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Loan prepayment speed is the annual rate at which borrowers are forecasted to repay their mortgage loan principal and is based on historical experience. The discount rate is used to determine the present value of future net servicing income. Another key assumption in the model is the required rate of return the market would expect for an asset with similar risk. These assumptions can, and generally will, change quarterly valuations as market conditions and interest rates change. Subsequent to the initial valuation, LSRs amortize in proportion to, and over the period of, the estimated future net servicing life of the underlying loans.

The following table presents the Company's core deposit intangibles and loan servicing rights for the periods presented:

	Three Months Ended September 30,	
	2024	2023
	(in thousands)	
Core deposit intangibles		
Balance–beginning of period	\$ 9,332	\$ 966
Addition from acquisition	-	10,308
Amortization	(487)	(373)
Balance–end of the period	<u>\$ 8,845</u>	<u>\$ 10,901</u>
Loan servicing rights		
Balance–beginning of period	\$ 528	\$ 497
New LSRs	26	23
Amortization	(81)	(33)
Balance–end of the period	<u>\$ 473</u>	<u>\$ 487</u>
Fair value	<u>\$ 516</u>	<u>\$ 497</u>
	Nine Months Ended September 30,	
	2024	2023
	(in thousands)	
Core deposit intangibles		
Balance–beginning of year	\$ 10,376	\$ 1,094
Addition from acquisition	-	10,308
Amortization	(1,531)	(501)
Balance–end of the period	<u>\$ 8,845</u>	<u>\$ 10,901</u>
Loan servicing rights		
Balance–beginning of year	\$ 436	\$ 486
New LSRs	185	134
Amortization	(148)	(133)
Balance–end of the period	<u>\$ 473</u>	<u>\$ 487</u>
Fair value	<u>\$ 516</u>	<u>\$ 497</u>

Note 11 – Income Taxes

The Company accounts for income taxes under the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates as of the date of enactment. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Increases or decreases in the valuation reserve are charged or credited to income tax expense.

As of September 30, 2024 and December 31, 2023, the Company had net deferred tax assets of \$31.4 million and \$30.9 million, respectively. These deferred tax assets can only be realized if the Company generates taxable income in the future. The Company regularly evaluates the feasibility of deferred tax asset positions. In determining whether a valuation allowance is necessary, the level of taxable income in prior years is considered to the extent that carrybacks are permitted under current tax laws, as well as estimates of future pre-tax and taxable income and tax planning strategies that would, if necessary, be implemented. The Company expects to realize the deferred tax assets over the allowable carryback and/or carryforward periods. Therefore, no valuation allowance was deemed necessary against the deferred tax assets as of September 30, 2024 or December 31, 2023. However, if an unanticipated event occurred that materially changed pre-tax and taxable income in future periods, a valuation allowance may become necessary and could have a material effect on the Company's condensed consolidated financial statements.

When tax returns are filed, some tax positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company does not have uncertain tax positions that it deems material.

On June 28, 2024, New Jersey passed legislation which enacts a 2.5% surtax, termed the "Corporate Transit Fee," on certain Corporation Business Tax (CBT) taxpayers that have New Jersey allocated taxable net income over \$10 million. The new surtax is in addition to the CBT and applies to privilege periods beginning on or after Jan. 1, 2024, through Dec. 31, 2028. The Corporate Transit Fee of 2.5% is levied on businesses with annual taxable net income allocated to New Jersey greater than \$10 million for the 2024–2028 privilege periods. Accordingly, these businesses will be subject to an 11.5% tax as opposed to the standard CBT rate of 9%. The new 11.5% rate will be imposed on the entire amount of taxable net income, not only the excess over \$10 million.

Income tax expense for the three months ended September 30, 2024 was \$4.2 million with an effective tax rate of 33.9%, compared to a tax benefit for the three months ended September 30, 2023 reflecting an effective tax rate of 5.8%. The effective tax rate for the third quarter of 2024 was impacted by additional tax expense recorded related to the Bank Owned Life Insurance restructuring transaction that the Company executed during the quarter compared to Q3 2023 which included the deferred tax impact for the apportionment reduction with regards to the Malvern acquisition.

The Company recorded a \$9.0 million tax expense for the nine months ended September 30, 2024 reflecting an effective tax rate of 22.1% compared to \$4.3 million with an effective tax rate of 25.5% for the same period of 2023. A tax benefit of \$1.1 million was booked as a discrete item in the second quarter for the aforementioned change in the tax rate. Along with the one time discrete item related to the recently enacted New Jersey Corporate Transit Fee in the second quarter of 2024, the effective tax rate for the nine months of 2024 was also lower due to certain discrete items related to a tax benefit from the vesting of restricted stock during the period, benefits regarding the finalization of the Malvern short period tax returns filed in the first quarter of 2024, and the recognition of \$104,000 interest income received from a New Jersey tax refund related to an amended return previously filed.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Note 12 – Commitments and Contingencies

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

At September 30, 2024 and December 31, 2023, commitments to extend credit totaled \$525.2 million and \$474.5 million, respectively. At September 30, 2024 and December 31, 2023, the Company had outstanding standby letters of credit of \$22.6 million and \$19.8 million, respectively.

The Company had recorded allowance for credit losses on unfunded commitments of \$537,000 and \$490,000 at September 30, 2024 and December 31, 2023 respectively.

In the ordinary course of business, the Company is party to litigation involving collection matters, contract claims and other miscellaneous causes of action arising from its business. Management does not consider that any such proceedings depart from usual routine litigation.

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments

Fair Value Measurement

The Company follows the guidance on fair value measurement in ASC 820-10-5, *Fair Value Measurement*, which establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends and have not been re-evaluated or updated for the purposes of these condensed consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

The fair value measurement hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)
Fair Value on a Recurring Basis
Investment Securities

The fair value of investment securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity or non-transferability, and such adjustments are based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers, where available, are used to support the fair values of certain Level 3 investments.

Derivatives

The Company records all derivatives on the Consolidated Statements of Financial Condition 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. The Company currently only has interest rate derivatives resulting from a service provided to certain qualified borrowers in a loan-related transaction and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. As such, all changes in fair value of the Company's derivatives are recognized directly in earnings. As of September 30, 2024 and December 31, 2023 the changes in the fair value of derivative assets are off-set by the changes in the fair value of derivative liabilities so there is no net impact on the Consolidated Statements of Income. The fair value of the Company's derivatives is determined using discounted cash flow analysis using observable market-based inputs, which are considered Level 2 inputs.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy are presented in the following tables as of the dates indicated:

	September 30, 2024			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Investment securities available for sale:				
U.S. Government-sponsored agency securities	\$ 2,000	\$ -	\$ 2,000	\$ -
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	43,063	-	43,063	-
Issued by GNMA	22,194	-	22,194	-
SBA pools	2,833	-	2,833	-
Asset-backed securities	473	-	473	-
Corporate obligations	3,986	-	3,986	-
Total securities available for sale	<u>\$ 74,549</u>	<u>\$ -</u>	<u>\$ 74,549</u>	<u>\$ -</u>
Equity securities	1,860	1,860	-	-
Derivative assets	10,239	-	10,239	-
Total	<u>\$ 86,648</u>	<u>\$ 1,860</u>	<u>\$ 84,788</u>	<u>\$ -</u>
Derivative liabilities	<u>\$ 10,239</u>	<u>\$ -</u>	<u>\$ 10,239</u>	<u>\$ -</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

	December 31, 2023			
Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
Investment securities available for sale:				
U.S. Government-sponsored agency securities	\$ 19,104	\$ -	\$ 19,104	\$ -
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	40,599	-	40,599	-
Issued by GNMA	21,753	-	21,753	-
U.S. Treasury securities	1,985	1,985	-	-
SBA pools	3,167	-	3,167	-
Asset-backed securities	698	-	698	-
Corporate obligations	6,836	-	6,836	-
Total securities available for sale	<u>\$ 94,142</u>	<u>\$ 1,985</u>	<u>\$ 92,157</u>	<u>\$ -</u>
Equity securities	1,888	1,888	-	-
Derivative assets	14,365	-	14,365	-
Total	<u>\$ 110,395</u>	<u>\$ 3,873</u>	<u>\$ 106,522</u>	<u>\$ -</u>
Derivative liabilities	<u>\$ 14,365</u>	<u>\$ -</u>	<u>\$ 14,365</u>	<u>\$ -</u>

Fair Value on a Nonrecurring Basis

Collateral dependent loans and other real estate owned are measured based on fair value of the underlying collateral; they are recorded at estimated fair value less estimated selling costs. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These loans and other real estate owned are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy are presented in the following tables as of the dates indicated:

	September 30, 2024			
Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
Collateral dependent loan	\$ 862	\$ -	\$ -	\$ 862
Other real estate owned	5,637	-	-	5,637
Total	<u>\$ 6,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,499</u>

	December 31, 2023			
Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
Collateral dependent loan	\$ 968	\$ -	\$ -	\$ 968
Total	<u>\$ 968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 968</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

The following tables present additional information about Level 3 assets measured at fair value on a nonrecurring basis as of the dates indicated:

Quantitative Information about Level 3 Fair Value Measurements September 30, 2024					
Fair Value	Valuation Method	Unobservable Input	Discount ⁽⁴⁾	Average ⁽⁴⁾	
(dollars in thousands)					
Collateral dependent loans ⁽¹⁾	\$ 862	Fair value of collateral ⁽²⁾	Appraised Value ⁽³⁾	8%	8%
Other real estate owned ⁽¹⁾	5,637	Fair value of collateral ⁽²⁾	Appraised Value ⁽³⁾	10%	10%
Total	\$ 6,499				

Quantitative Information about Level 3 Fair Value Measurements December 31, 2023					
Fair Value	Valuation Method	Unobservable Input	Discount ⁽⁴⁾	Average ⁽³⁾	
(dollars in thousands)					
Collateral dependent loans ⁽¹⁾	\$ 968	Fair value of collateral ⁽²⁾	Appraised Value ⁽³⁾	8%	8%

(1) Includes one partially charged-off loan at September 30, 2024 and December 31, 2023. Other real estate owned consists of one commercial real estate property at September 30, 2024.

(2) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are unobservable.

(3) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

(4) The discount and average is based on qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percentage of the appraised value. As of September 30, 2024 and December 31, 2023 there is only one collateral dependent loan and at September 30, 2024, only one OREO property is included in the tables above.

Fair Value of Financial Instruments

Accounting guidance requires the disclosure of the estimated fair value of certain financial instruments, including those financial instruments for which the Company did not elect the fair value option, and requires the use of an exit price notion when measuring the fair value of financial instruments for disclosure purposes. Estimated fair values have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have a material effect on these estimates of fair value.

The carrying amounts and estimated fair values of the Company’s financial instruments are provided in the following tables as of the dates indicated:

	September 30, 2024				
	Carrying Amount	Estimated Fair Value	Fair Value Measurements Using:		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	\$ 312,299	\$ 312,299	\$ 312,299	\$ -	\$ -
Interest bearing time deposits with banks	743	738	-	738	-
Investment securities available for sale	74,549	74,549	-	74,549	-
Investment securities held to maturity	43,659	39,049	-	39,049	-
Equity securities, at fair value	1,860	1,860	1,860	-	-
Restricted investment in bank stocks	13,845	13,845	-	13,845	-
Other investments	11,141	11,141	-	11,141	-
Net loans	3,050,054	3,023,143	-	-	3,023,143
Accrued interest receivable	13,502	13,502	-	13,502	-
Derivative assets	10,239	10,239	-	10,239	-
Loan servicing rights	473	516	-	-	516
Financial Liabilities:					
Non-maturity deposits	2,352,518	2,352,518	2,352,518	-	-
Time deposits	697,552	696,302	-	696,302	-
Borrowings	236,999	238,022	-	238,022	-
Subordinated debentures	29,926	29,364	-	29,364	-
Accrued interest payable	5,078	5,078	-	5,078	-
Derivative liabilities	10,239	10,239	-	10,239	-

Note 13 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

	December 31, 2023				
	Carrying Amount	Estimated Fair Value	Fair Value Measurements Using:		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)					
Financial Assets:					
Cash and cash equivalents	\$ 227,951	\$ 227,951	\$ 227,951	\$ -	\$ -
Interest bearing time deposits with banks	996	978	-	978	-
Investment securities available for sale	94,142	94,142	1,985	92,157	-
Investment securities held to maturity	44,059	38,486	-	38,486	-
Equity securities, at fair value	1,888	1,888	1,888	-	-
Restricted investment in bank stocks	10,469	10,469	-	10,469	-
Other investments	9,841	9,841	-	9,841	-
Net loans	2,979,104	2,923,364	-	-	2,923,364
Accrued interest receivable	14,763	14,763	-	14,763	-
Derivative assets	14,365	14,365	-	14,365	-
Loan servicing rights	436	459	-	-	459
Financial Liabilities:					
Non-maturity deposits	2,302,313	2,302,313	2,302,313	-	-
Time deposits	665,256	658,341	-	658,341	-
Borrowings	179,140	178,935	-	178,935	-
Subordinated debentures	55,261	53,556	-	53,556	-
Accrued interest payable	2,813	2,813	-	2,813	-
Derivative liabilities	14,365	14,365	-	14,365	-

Note 14 – Derivatives and Hedging Activities
Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. The Company currently only has interest rate derivatives resulting from a service provided to certain qualified borrowers in a loan-related transaction, therefore, interest rate derivatives are not used to manage interest rate risk in the Company's assets or liabilities.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain borrowers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

Note 14 – Derivatives and Hedging Activities (continued)
Tabular Disclosure of Fair Values of Derivative Instruments on the Consolidated Statements of Financial Condition

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition as of the dates indicated:

Fair Values of Derivative Instruments as of September 30, 2024						
Derivative Assets			Derivative Liabilities			
(in thousands)						
Notional Amount	Consolidated Statements of Financial Condition Location	Fair Value	Notional Amount	Consolidated Statements of Financial Condition Location	Fair Value	
Derivatives not designated as hedging instruments						
Interest Rate Products	\$ 158,371	Other Assets	\$ 10,239	\$ 158,371	Other Liabilities	\$ 10,239
Total derivatives not designated as hedging instruments ⁽¹⁾			\$ 10,239			
Netting adjustments ⁽²⁾			239	239		
Cash collateral ⁽³⁾			8,922	-		
Net Derivative Amounts			\$ 1,078	\$ 10,000		

(1) Gross amounts are not offset in the Consolidated Statements of Financial Condition and the Company has not made an election to offset its derivative positions.

(2) Netting adjustments represents the amounts recorded to convert derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The Company's interest rate swaps with institutional counterparties are subject to master netting arrangements. Interest rate swaps with commercial banking customers are not subject to master netting arrangements.

(3) Cash collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The application of the collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above.

Fair Values of Derivative Instruments as of December 31, 2023						
Derivative Assets			Derivative Liabilities			
(in thousands)						
Notional Amount	Consolidated Statements of Financial Condition Location	Fair Value	Notional Amount	Consolidated Statements of Financial Condition Location	Fair Value	
Derivatives not designated as hedging instruments						
Interest Rate Products	\$ 155,268	Other Assets	\$ 14,365	\$ 155,268	Other Liabilities	\$ 14,365
Total derivatives not designated as hedging instruments ⁽¹⁾			\$ 14,365	\$ 14,365		
Cash collateral ⁽²⁾			13,520	-		
Net Derivative Amounts			\$ 845	\$ 14,365		

(1) Gross amounts are not offset in the Consolidated Statements of Financial Condition and the Company has not made an election to offset its derivative positions.

(2) Cash collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The application of the collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above.

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 14 – Derivatives and Hedging Activities (continued)

As of September 30, 2024 and December 31, 2023, the fair value of derivatives in a net asset position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$9.8 million and \$14.4 million, respectively. As of September 30, 2024, the Company received \$8.9 million in cash collateral related to these agreements and is included in restricted cash on the Consolidated Statement of Financial Condition. The Company did not post any cash collateral as of September 30, 2024. As of December 31, 2023, the Company received \$13.5 million in cash collateral related to these agreements. The Company did not post any cash collateral as of December 31, 2023 related to these agreements. If the Company had breached any of these provisions at September 30, 2024, it could have been required to settle its obligations under the agreements at their termination value of \$9.8 million.

Note 15 – Leases

As of September 30, 2024, the Company leased 19 locations under non-cancellable operating leases, which expire at various dates through the year ending January 31, 2031. All of the Company's operating leases have renewal options, primarily for five-year terms, and are included in the calculation of the Company's right-of-use assets and lease liabilities when they are expected to be exercised. Certain leases also have escalation clauses which are primarily fixed dollar amount increases. No operating leases include variable lease payments. Two of the Company's operating leases are with related parties. The Company currently does not have any finance leases.

All of the operating leases in which the Company is the lessee are comprised of real property primarily for branches and office space. Right-of-use ("ROU") assets and operating lease liabilities are reflected in the Consolidated Statements of Financial Condition in other assets and other liabilities, respectively.

The following provides additional information about the Company's operating leases:

	September 30, 2024	December 31, 2023
Right-of-use assets (in thousands)	\$ 9,973	\$ 10,226
Lease liabilities (in thousands)	\$ 10,372	\$ 10,600
Weighted average remaining lease term (in years)	4.44	4.86
Weighted average discount rate	3.59%	3.50%

Future minimum payments for the periods ended:

	September 30, 2024
	(in thousands)
December 31, 2024	\$ 730
December 31, 2025	2,741
December 31, 2026	2,430
December 31, 2027	2,324
December 31, 2028	1,797
Thereafter	1,215
Total Lease Payments	\$ 11,237
Less: Imputed interest	\$ (865)
Total lease liabilities	\$ 10,372

	Three Months Ended September 30,	
	2024	2023
	(in thousands)	
Operating lease cost (cost resulting from lease payments)	\$ 726	\$ 618
Operating cash flows from operating leases	\$ 620	\$ 540

	Nine Months Ended September 30,	
	2024	2023
	(in thousands)	
Operating lease cost (cost resulting from lease payments)	\$ 2,085	\$ 1,704
Operating cash flows from operating leases	\$ 1,797	\$ 1,482

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 15 – Leases (continued)

Total lease rental expenses were \$866,000 and \$699,000 for the nine months ended September 30, 2024 and 2023, respectively. Total rental expense includes certain common area maintenance charges and equipment leasing expenses and is included in occupancy and equipment expense on the Consolidated Statements of Income.

Note 16 – Subsequent Events

Management has evaluated subsequent events through the date of issuance of the Condensed Consolidated Financial Statements and does not believe any events warrant recording or disclosure in these Condensed Consolidated Financial Statements.

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

The following management discussion and analysis of the Company's consolidated financial condition as of September 30, 2024 and the results of operations for the three and nine months ended September 30, 2024 and 2023 ("MD&A") should be read in conjunction with the consolidated audited financial statements, including notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the FDIC, and the other information therein. The Consolidated Statements of Financial Condition as of September 30, 2024, the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income, the Consolidated Statements of Changes in Stockholders' Equity and the Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2024 and 2023, are unaudited. The Consolidated Statements of Financial Condition as of December 31, 2023 was derived from the audited Consolidated Statements of Financial Condition that was included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. The consolidated financial statements include, in the opinion of management, all adjustments considered necessary for a fair presentation of such data. As used in this Quarterly Report on Form 10-Q, "we," "us," "our," "the Bank" and "the Company" refer to First Bank and its consolidated subsidiaries, unless otherwise noted.

Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding First Bank's future financial and business performance, business and growth strategy, projected plans, objectives for our business, products and risk management, integration of the acquired businesses and anticipated results related thereto, our ability to recognize anticipated operational efficiencies, our market presence and desirability of the markets we operate in, competition in our markets, our competitive strength, consumers behavior and relative expectations, our share repurchase programs, anticipated changes in statutes, regulations or regulatory policies applicable to us and their impacts on our business, and other projections based on macroeconomic and industry conditions and trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Such forward-looking statements are based on various facts and derived utilizing important assumptions, current expectations, estimates and projections about First Bank, any of which may change over time and some of which may be beyond First Bank's control. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts, although not all forward- looking statements include the foregoing.

Further, certain important factors that could affect First Bank's future results and cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to: whether First Bank can: successfully implement its growth strategy, including identifying acquisition targets and consummating and integrating suitable acquisitions (including integrating Malvern Bancorp, Inc. ("Malvern")), sustain its internal growth rate, and provide competitive products and services that appeal to its customers and target markets; difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the market areas in which First Bank operates and in which its loans are concentrated, including the effects of inflation, declines in housing markets and public sentiment regarding the financial services industry; the chance that we may experience material weaknesses in our internal control over financial reporting or otherwise fail to maintain an effective system of internal controls in the future; an increase in unemployment levels and slowdowns in economic growth; First Bank's level of nonperforming assets and the costs associated with resolving any problem loans including litigation and other costs; changes in market interest rates may increase funding costs and reduce earning asset yields thus reducing margin; the impact of changes in interest rates, both up and down, and the credit quality and strength of underlying collateral and the effect of such changes on the market value of First Bank's investment securities portfolio; decreases in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; operational risks, including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemic; the extensive federal and state regulation, supervision and examination governing almost every aspect of First Bank's operations, including the effect of any changes in regulations affecting financial institutions; First Bank's ability to comply with applicable capital and liquidity requirements, including the ability to generate liquidity internally or raise capital on favorable terms, including continued access to the debt and equity capital markets; and possible changes in trade, monetary and fiscal policies, accounting standards, laws and regulations and other activities of governments, agencies, and similar organizations.

[Table of Contents](#)

For discussion of these and other risks, uncertainties, and assumptions, including the important factors that may cause actual results to differ from expectations, please refer to Item 1A. Risk Factors in this Annual Report on Form 10-K and any updates to those risk factors set forth in First Bank's subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K. If one or more events related to these or other risks or uncertainties materialize, or if First Bank's underlying assumptions prove to be incorrect, actual results may differ materially from what First Bank anticipates. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and First Bank does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements, expressed or implied, included in this communication are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that First Bank or persons acting on First Bank's behalf may issue.

Business Overview

We are a New Jersey-chartered commercial bank which commenced operations in April 2007. We are regulated by the New Jersey Department of Banking and Insurance ("DOBI") and the Federal Deposit Insurance Corporation ("FDIC"). We are headquartered in Hamilton, Mercer County, New Jersey, with total assets of \$3.76 billion, total loans of \$3.09 billion, total deposits of \$3.05 billion and total stockholders' equity of \$402.1 million at September 30, 2024. As of September 30, 2024 we operated 26 full-service branches in Cinnaminson, Delanco, Denville, Ewing, Fairfield, Flemington (two), Hamilton, Lawrence, Monroe, Pennington, Randolph, Somerset, Williamstown, and Morristown, New Jersey, Doylestown, Trevese, Warminster, West Chester, Paoli, Malvern, Coventry, Devon, Lionville and Glen Mills, Pennsylvania, and Palm Beach, Florida. We target business from individuals, businesses, and governmental entities located in our primary service regions throughout New Jersey and eastern Pennsylvania, with a particular focus on the corridor between New York City and Philadelphia.

We provide lending, deposit and other financial products and services with an emphasis on commercial real estate and commercial and industrial loans to small to mid-sized businesses and individuals. We also provide improved digital banking capabilities and expanded treasury management products and services.

We focus on traditional deposit and loan products with businesses and individuals living and working in our markets as the source of most of our business. The majority of our deposits come from individuals and businesses located in close proximity to our branches. Most of our lending customers come from the New York City to Philadelphia corridor. By providing a superior customer experience, including access to our decision makers, and by expanding our brand into communities located in our target markets, we can continue to grow our business, increase profitability and create value for our shareholders.

We have a wholly-owned investment company subsidiary, FB Delaware Investment Company, Inc., a Delaware corporation, which was formed to manage an investment in commercial real estate. FB Delaware Investment Company, Inc. has in turn a wholly-owned New Jersey subsidiary, FB Preferred Capital, Inc., to hold and manage its commercial real estate loans. We also have several wholly-owned subsidiaries which hold foreclosed assets.

On July 17, 2023, pursuant to an Agreement and Plan of Merger dated December 13, 2022, as amended (the "Merger Agreement"), Malvern Bancorp, Inc. ("Malvern") merged with and into FB Merger Subsidiary LLC, the wholly-owned subsidiary of First Bank ("Merger Sub"), with Merger Sub as the surviving entity, immediately followed by the merger of Malvern Bank, National Association ("Malvern Bank") with and into First Bank, with First Bank as the surviving institution (collectively, the "Merger").

At the effective time of the Merger (the "Effective Time"), each share of Malvern common stock was converted into the right to receive \$7.80 in cash and 0.7733 shares of First Bank common stock, with cash paid in lieu of fractional shares pursuant to the Merger Agreement. At the Effective Time, each outstanding Malvern restricted stock award was converted into the right to receive the Merger consideration, and each Malvern stock option was converted into the right to receive a cash payment equal to (a) the excess, if any, of (i) the 0.7733 exchange ratio multiplied by the average closing price of First Bank common stock for the 20 trading days ending on the tenth day prior to the closing date of the Merger, plus \$7.80 in cash, over (ii) the exercise price of the Malvern stock option, minus (b) all applicable taxes required to be withheld. Any Malvern stock option with a per share exercise price that equaled or exceeded the stock option consideration was canceled, with no consideration being paid. To effect the Merger, First Bank issued approximately 5.9 million shares of its common stock and \$59.3 million in cash to Malvern shareholders, in the aggregate.

After acquisition accounting adjustments, at the time of the acquisition, First Bank added \$953.8 million in assets, \$92.0 million in investments, \$727.7 million in loans, \$671.9 million in deposits, \$130.0 million in Federal Home Loan Bank ("FHLB") advances, and \$25.5 million in subordinated debt, and the acquisition resulted in \$26.3 million in goodwill.

[Table of Contents](#)

Financial service providers are challenged by intense competition, changing customer demands, increased pricing pressures and the ongoing impact of new regulations and industry consolidation. This is more so for traditional loan and deposit services, due to continuous competitive pressures as both banks and nonbanks compete for customers with a broad array of banking, investment and capital market products. Despite the challenges and competition, our key strengths include establishing relationships and providing personalized and specialized service to attract high quality business to the Company. We believe that the key differentiating factors between us and our competition are our philosophy of relationship banking and our in-market expertise. We remain committed to building customer relationships and delivering quality service to the banking markets we serve.

Critical Accounting Estimates

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). In the preparation of our condensed consolidated financial statements, we are required to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

We define our critical accounting estimates as those that require us to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on our financial condition and results of operations as well as the specific manner in which we apply those principles. We believe our accounting policies governing the allowance for credit losses, fair value accounting of acquired loans and the evaluation of goodwill for impairment, are critical accounting estimates. Management has reviewed and approved these critical accounting estimates and has discussed these policies with the Audit and Risk Management Committee of our Board of Directors.

Our critical accounting estimates are fundamental to understanding Management’s Discussion and Analysis of Financial Condition and Results of Operations. We believe the estimates used in the preparation of our financial statements that require significant estimates and judgements are as follows:

Acquired Loans. Acquired loans are recorded at fair value with no carryover of the related allowance for credit losses at the time of acquisition. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

At the purchase or acquisition date, loans are evaluated to determine whether there has been more than insignificant credit deterioration since origination. Loans that have experienced more than insignificant credit deterioration since origination are referred to as purchase credit deterioration (“PCD”) loans. In its evaluation of whether a loan has experienced more than insignificant deterioration in credit quality since origination, the Company takes into consideration loan ratings and past due and nonaccrual status. At the purchase or acquisition date, the amortized cost basis of PCD loans is equal to the purchase price and an initial estimate of credit losses. The initial recognition of expected credit losses on PCD loans has no impact on net income. When the initial measurement of expected credit losses on PCD loans is calculated on a pooled loan basis, the expected credit losses are allocated to each loan within the pool. Any difference between the initial amortized cost basis and the unpaid principal balance of the loan represents a noncredit discount or premium, which is accreted (or amortized) into interest income over the life of the loan. Subsequent changes to the allowance for credit losses (“ACL”) on PCD loans are recorded through the credit loss expense. For purchased loans that are not deemed to have experienced more than insignificant credit deterioration since origination and are therefore not deemed PCD, any discounts or premiums included in the purchase price are accreted (or amortized) over the contractual life of the individual loan.

Principal and interest payments received on PCD loans that were written down to \$0 at the acquisition date are reported in the Consolidated Statements of Income as gains on recovery of acquired loans. These loans were written down to \$0 because there was no expectation of collecting the principal at the acquisition date. Payoffs on loans that had partial charge offs at the time of acquisition are reported in the Consolidated Statements of Income in interest on loans, including fees, after retirement of principal.

Allowance for Credit Losses. We adopted the Current Expected Credit Loss (“CECL”) model on January 1, 2023. The CECL model applies to loans and leases, unfunded lending commitments, held to maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available for sale debt securities requires the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other than temporary. The largest component of the Company’s ACL is on loans.

[Table of Contents](#)

The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Credit quality within the loan portfolio is continuously monitored by management and reflected within the ACL on loans, which is adjusted through a credit loss expense or benefit and reduced by loan charge offs, net of recoveries. The adequacy of our ACL is evaluated regularly and at least quarterly. The loan loss estimation process involves procedures to appropriately consider the unique characteristics of our loan portfolio segments. When computing ACL levels, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Our CECL model is primarily based on a vintage approach which estimates future losses over the expected life of the loan based on historical loan charge offs, net of recoveries and adjusted for certain qualitative factors. Based on the nature of the acquired Malvern loan portfolio and the loan data available, we utilized a probability of default/loss given default method for these loans. We evaluate our key assumptions and projections, such as the expected life of each loan segment and our economic projections, on at least a quarterly basis. Evaluations of the portfolio and individual credits are inherently subjective, as they require estimates, assumptions and judgments as to the facts and circumstances of particular situations. Determining the appropriateness of the ACL is complex and requires our management to make significant judgements about the effect of matters that are inherently uncertain. In future periods, evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the ACL and credit loss expense. Furthermore, the majority of our loans are secured by real estate in New Jersey and Pennsylvania. Accordingly, the collectability of a substantial portion of the carrying value of our loan portfolio is susceptible to changes in local market conditions and may be adversely affected by declines in real estate values. Future adjustments to the ACL may be necessary due to economic, operating, regulatory and other conditions beyond our control. We believe that our ACL is adequate to cover probable losses which are specifically identifiable, as well as losses inherent in our portfolio which are probable but not specifically identifiable.

The vintage loss rate approach creates segments of loans as outlined above and the loan segments are further sorted by loan origination year. Historical charge offs percentages, net of recoveries are calculated for each loan segment. An average life is also estimated for each loan segment based on the Company's historical loan data. The actual historical charge offs as a percent of total loans are calculated for each vintage year within each loan segment and projected based on historical charge off data for future years within the average life horizon of each loan segment. Those charge off percentages are added together to obtain an aggregated vintage loss percentage which is then multiplied by the outstanding loan balances at period end to obtain the quantitative portion of the ACL. The qualitative portion of the allowance is based on general economic forecasts and conditions and other internal and external factors affecting the Company as a whole, as well as specific loans. Factors considered include the following: loan delinquency levels and trends, concentrations of credit, average loan risk ratings and trends, the Company's lending policies and underwriting standards and the Company's lending management's experience depth and ability. The Company utilizes economic forecasts over a two-year reasonable and supportable forecast period followed by a cliff reversion to historical data.

For the acquired Malvern loan portfolio, the Company utilizes a probability of default/loss given default methodology. Under the probability of default/loss given default methodology, loans are segmented similarly to the vintage method and an average life is also determined for each loan segment consistent with the vintage methodology. The probability of default is the likelihood that a loan will not be repaid and will default. It is calculated for each loan category. Loss Given Default is the fractional loss due to default. Factors to determine the probability of default are historical loan charge-offs, loan risk ratings and other qualitative factors such as loan delinquency levels and economic forecasts. The economic forecasts utilized to determine the probability of default are the same as the forecasts used in the vintage method. Factors to determine the loss given default include loan-to-value ("LTVs") and historical loss rates. Based on these factors each loan is assigned a probability of default and loss given default. The probability of default is then multiplied by the loss given default to determine the required ACL.

The formal evaluation process for determining the adequacy of the ACL takes place on a quarterly basis. As part of our formal process, our lending staff reevaluates the original rating assigned to the loans based on the current loan characteristics and updates the original rating accordingly. In addition, on a quarterly basis our Asset Quality Review ("AQR") Committee, which includes the President and CEO, Chief Lending Officer, Chief Credit Officer, Chief Financial Officer, Chief Accounting Officer, Controller and loan relationship and workout managers, formally reviews the ratings on all criticized and classified loans. The AQR Committee also oversees higher risk performing loans classified as special mention, substandard, or nonperforming loans. We define higher risk performing loans as those loans that exhibit certain weaknesses and require a higher level of monitoring because of factors such as payment performance, business conditions, nature of collateral and other factors, as appropriate. The AQR Committee reviews changes in risk ratings, approves strategies regarding problem credits and reviews distressed credit loan analyses. Risk classifications range from one to ten or from minimal risk to loss. Charge offs are also determined based on this review process. The AQR Committee confirms ACL allocations for all distressed credits each quarter.

The ACL for individual loans, such as non-accrual and purchase credit deteriorated loans, that do not share risk characteristics with other loans are evaluated individually. Collateral-dependent loans are loans in which repayment of the loan is expected to be provided substantially through the sale of the collateral. The expected credit loss for collateral-dependent loans is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral, which is adjusted for the estimated cost to sell.

[Table of Contents](#)

We are required to conduct an impairment evaluation on Available for Sale ("AFS") securities to determine whether the Company has the intent to sell the security, or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires us to reduce the security's amortized cost basis down to its fair value through earnings. We also evaluate the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation was based upon factors such as the creditworthiness of the underlying issuer, historic payment history of each individual investment security and if applicable, the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under ASC Topic 326, and declines due to non-credit factors are recorded in accumulated other comprehensive income ("AOCI"), net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of taxes, on the Consolidated Statements of Financial Condition.

We segment our held to maturity ("HTM") portfolio into agency residential mortgage-backed securities, obligations of state and political subdivisions and corporate obligations to determine the ACL. The ACL is determined based on the Company's historical losses, adjusted for qualitative factors including economic forecasts over a two-year reasonable and supportable forecast period. The Company has determined that for agency residential mortgage-backed securities it would be appropriate to assume the expected credit loss to be zero because these securities are guaranteed by enterprises that have credit ratings on par with the U.S. government or are guaranteed by the U.S. government, which is consistent with the Interagency Policy Statement on ACL revised in April 2023. This assumption will be reviewed and attested to quarterly.

Goodwill and Other Intangible Assets. Our intangible assets consist primarily of goodwill and core deposit intangibles. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities. Goodwill is not amortized but is subject to annual tests for impairment, or more often if events or circumstances indicate it may be impaired. We may elect to perform a qualitative assessment for the annual impairment test. If the qualitative assessment indicates it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if we elect not to perform a qualitative assessment, then we would be required to perform a quantitative test for goodwill impairment. If the estimated fair value of the reporting unit is less than the carrying value, goodwill is impaired and is written down to its estimated fair value.

In 2024 and 2023, we elected to perform qualitative assessments of goodwill as of our established annual assessment date of August 31. Based on those assessments, we determined that it was more likely than not that the unit's fair value was not less than its carrying amount at both dates. We concluded that none of our goodwill was impaired as of August 31, 2024 and 2023. As of September 30, 2024 and December 31, 2023, no triggering events were identified. Therefore, we did not perform an interim impairment evaluation.

Core deposit intangibles are amortized on an accelerated basis using an estimated life of ten years. The core deposit intangibles are evaluated annually for impairment in accordance with GAAP. An impairment loss will be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset.

A portion of certain Small Business Administration ("SBA") loans we originate are sold to third parties; however, we may retain the servicing rights related to these loans. An intangible asset, referred to as loan servicing rights ("LSRs") is recognized when a loan's servicing rights are retained upon sale of a loan. LSRs are amortized over the period of the economic life of the assets arising from estimated net servicing revenues. LSRs are evaluated quarterly for impairment based upon the fair value of the rights as compared to their carrying amounts.

We believe that the fair values of our intangible assets were in excess of their carrying amounts and therefore there was no impairment of intangible assets at September 30, 2024.

Recent Authoritative Accounting Guidance

See Note 1 of the Notes to Condensed Consolidated Financial Statements located elsewhere in this document for a description of recent authoritative accounting guidance including, if applicable, the respective dates of adoption and effects on our consolidated financial condition and results of operations.

Results of Operations for Three and Nine Months Ended September 30, 2024 and 2023

Net Income

Net income for the three months ended September 30, 2024 was \$8.2 million compared to a \$1.3 million net loss for the same period in 2023. Diluted earnings per share were \$0.32 for the three months ended September 30, 2024 compared to a diluted loss per share of \$0.05 for the same period in 2023. The increase in net income was primarily due to a decrease in merger related expenses and credit loss expense of \$7.0 million and \$5.1 million, respectively, combined with an increase of \$2.3 million and \$1.5 million in non-interest income and net interest income, respectively. The increase was partially offset by an increase of \$4.3 million in income tax expenses for the three months ended September 2024 compared to same period in 2023. The decrease in merger-related expenses was due to completion of the Malvern acquisition in the third quarter of 2023. The decrease in credit loss expense was also primarily due to the Malvern acquisition and was driven by the initial credit loss expense on the acquired loan portfolio recorded during the third quarter of 2023. In the third quarter of 2024, the Bank recorded non-interest income of \$2.5 million, compared to \$193,000 during the same period in 2023. The increase in non-interest income was primarily related to approximately \$1.1 million in a one-time enhancement to the cash surrender value of Bank Owned Life Insurance (“BOLI”) that resulted from a BOLI restructuring transaction completed during the third quarter of 2024 coupled with a \$135,000 gain on sale of loans recorded during the third quarter of 2024 compared to a loss on sale of \$704,000 during the third quarter of 2023. During the third quarter of 2024, we realized an increase in net interest income of \$1.5 million, or 5.20%, compared to the prior year quarter, primarily resulting from an increase in loan interest income which was partially offset by an increase in interest expense on deposits. Income tax expense for the three months ended September 30, 2024 was \$4.2 million with an effective tax rate of 33.9%, compared to an income tax benefit of \$78,000 for the third quarter of 2023. The increase was driven by higher taxable income and the tax impact of the aforementioned BOLI restructuring which led to a higher effective tax rate. The increase in diluted earnings per share for the comparable periods was due to higher net income offset somewhat by an increase in diluted weighted average shares outstanding.

Net income for the nine months ended September 30, 2024 was \$31.7 million compared to \$12.5 million of net income for the same period in 2023. Diluted earnings per share were \$1.26 for the nine months ended September 30, 2024 compared to diluted earnings per share of \$0.59 for the same period in 2023. The increase in net income was primarily due to an increase in net interest income of \$17.4 million, or 23.7%, primarily resulting from substantial loan growth related to the Malvern acquisition and higher loan yields, which were partially offset by increased interest expense related to the higher cost of deposits and an expanded deposit base. Additionally, a decrease in credit loss expense of \$7.3 million during the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023, also contributed to the increase in net income. The decrease in credit loss expense was primarily due to the initial credit loss expense on the acquired Malvern loan portfolio recorded during the third quarter of 2023 combined with the Bank's stable asset quality metrics. Also contributing to the increase in net income was an increase of \$2.8 million in non-interest income for the nine months ended September 30, 2024 compared to the comparable period in 2023. The increase was primarily driven by higher BOLI income coupled with lesser increases in other non-interest income categories primarily due to growth in the Bank's customer base from the Malvern acquisition. Partially offsetting the increase in net income was an increase of \$3.6 million in non-interest expense during the first nine months of 2024 compared to the prior year period. The increase was primarily due to a larger employee base, expanded branch network and other expenses due to the growth in the Company since the prior year period, primarily from the impact of the Malvern acquisition, which was partially offset by the merger related expenses incurred during the nine months ended September 30, 2023. The increase in diluted earnings per share for the comparable periods was due to higher net income offset somewhat by an increase in diluted weighted average shares outstanding.

The return on average assets (“ROAA”) and return on average equity (“ROAE”) for the three months ended September 30, 2024 were 0.88% and 8.15%, respectively, compared with (0.14)% and (1.43)%, respectively, for the same period in the prior year. Annualized ROAA and ROAE for the nine months ended September 30, 2024 were 1.17% and 10.95%, respectively, compared with 0.55% and 5.33% for the same period in the prior year.

Net Interest Income

Our results of operations depend primarily on our net interest income, the largest and most significant component of our operating income. Net interest income is the difference between income on our interest earning assets and the expense on interest bearing liabilities, primarily deposits. Net interest income depends upon the relative amounts and types of interest earning assets and interest-bearing liabilities, and the interest rate earned or paid on them. Net interest income is also impacted by changes in interest rates and the shape of market yield curves. Net interest spread is the difference between the weighted average rate received on interest earning assets and the weighted average rate paid to fund those interest earning assets.

[Table of Contents](#)

The following tables provide an analysis of net interest income by each major category of average interest earning assets and average interest-bearing liabilities, and the related average interest yields and costs for the periods indicated. Average yields are derived by dividing annualized interest income by the average balance of the related assets, and average costs are derived by dividing annualized interest expense by the average balance of the related liabilities. The average interest yields and costs include fees, costs, premiums and discounts, which are considered adjustments to interest rates.

	Three Months Ended September 30,					
	2024			2023		
	Average Balance	Interest	Average Rate ⁽⁵⁾	Average Balance	Interest	Average Rate ⁽⁵⁾
	(dollars in thousands)					
Interest earning assets						
Investment securities ^{(1) (2)}	\$ 137,216	\$ 1,244	3.61%	\$ 169,244	\$ 1,255	2.94%
Loans ⁽³⁾	3,010,116	50,957	6.73%	3,003,703	46,088	6.09%
Interest bearing deposits with banks, Federal funds sold and other	265,474	3,593	5.38%	182,128	2,395	5.22%
Restricted investment in bank stocks	12,768	257	8.01%	10,284	196	7.56%
Other investments	12,776	122	3.80%	9,162	2	0.09%
Total interest earning assets ⁽²⁾	3,438,350	56,173	6.50%	3,374,521	49,936	5.87%
Allowance for credit losses	(36,612)			(41,216)		
Non-interest earning assets	271,105			232,045		
Total assets	\$ 3,672,843			\$ 3,565,350		
Interest bearing liabilities						
Interest bearing demand deposits	\$ 587,045	\$ 3,974	2.69%	674,417	\$ 4,038	2.38%
Money market deposits	1,064,045	10,573	3.95%	952,042	8,386	3.49%
Savings deposits	149,057	587	1.57%	174,412	490	1.11%
Time deposits	690,723	7,947	4.58%	655,288	5,556	3.36%
Total interest bearing deposits	2,490,870	23,081	3.69%	2,456,159	18,470	2.98%
Borrowings	206,588	2,550	4.91%	163,746	1,914	4.64%
Subordinated debentures	29,908	440	5.88%	51,101	940	7.36%
Total interest bearing liabilities	2,727,366	26,071	3.80%	2,671,006	21,324	3.17%
Non-interest bearing deposits	506,084			507,866		
Other liabilities	40,858			33,106		
Stockholders' equity	398,535			353,372		
Total liabilities and stockholders' equity	\$ 3,672,843			\$ 3,565,350		
Net interest income/interest rate spread ⁽²⁾		30,102	2.70%		28,612	2.70%
Net interest margin ^{(2) (4)}			3.48%			3.36%
Tax equivalent adjustment ⁽²⁾		(8)			(18)	
Net interest income		\$ 30,094			\$ 28,594	

(1) Average balance of investment securities available for sale is based on amortized cost.

(2) Interest and average rates are presented on a tax equivalent basis using a federal income tax rate of 21%.

(3) Average balances of loans include loans on nonaccrual status.

(4) Net interest income divided by average total interest earning assets.

(5) Annualized.

Nine Months Ended September 30,

	2024			2023		
	Average Balance	Interest	Average Rate ⁽⁵⁾	Average Balance	Interest	Average Rate ⁽⁵⁾
(dollars in thousands)						
Interest earning assets						
Investment securities ^{(1) (2)}	\$ 143,528	\$ 3,793	3.53%	\$ 155,128	\$ 3,319	2.86%
Loans ⁽³⁾	2,995,895	151,039	6.73%	2,590,409	111,536	5.76%
Interest bearing deposits with banks,						
Federal funds sold and other	231,171	9,404	5.43%	143,922	5,403	5.02%
Restricted investment in bank stocks	11,461	699	8.15%	9,327	454	6.51%
Other investments	12,262	376	4.10%	8,902	172	2.58%
Total interest earning assets ⁽²⁾	3,394,317	165,311	6.51%	2,907,688	120,884	5.56%
Allowance for credit losses	(37,000)			(33,664)		
Non-interest earning assets	265,368			174,246		
Total assets	\$ 3,622,685			\$ 3,048,270		
Interest bearing liabilities						
Interest bearing demand deposits	\$ 599,025	\$ 11,453	2.55%	\$ 445,318	\$ 6,492	1.95%
Money market deposits	1,046,911	30,921	3.95%	840,688	20,177	3.21%
Savings deposits	156,416	1,780	1.52%	155,370	1,202	1.03%
Time deposits	680,194	22,099	4.34%	586,827	12,703	2.89%
Total interest bearing deposits	2,482,546	66,253	3.56%	2,028,203	40,574	2.67%
Borrowings	181,844	6,859	5.04%	149,042	4,939	4.43%
Subordinated debentures	34,071	1,224	4.79%	36,949	1,821	6.57%
Total interest bearing liabilities	2,698,461	74,336	3.68%	2,214,194	47,334	2.86%
Non-interest bearing deposits	494,971			490,211		
Other liabilities	41,971			29,939		
Stockholders' equity	387,282			313,926		
Total liabilities and stockholders' equity	\$ 3,622,685			\$ 3,048,270		
Net interest income/interest rate spread ⁽²⁾		90,975	2.83%		73,550	2.70%
Net interest margin ^{(2) (4)}			3.58%			3.38%
Tax equivalent adjustment ⁽²⁾		(23)			(33)	
Net interest income		\$ 90,952			\$ 73,517	

(1) Average balance of investment securities available for sale is based on amortized cost.

(2) Interest and average rates are presented on a tax equivalent basis using a federal income tax rate of 21%.

(3) Average balances of loans include loans on nonaccrual status.

(4) Net interest income divided by average total interest earning assets.

(5) Annualized.

Rate/Volume Analysis

Changes in net interest income and margin result from the interaction between the volume and composition of interest earning assets, interest bearing liabilities and related yields and funding costs. The following tables demonstrate the impact on net interest income of changes in the volume of interest earning assets and interest-bearing liabilities and changes in interest rates earned and paid for the periods presented.

	Three Months Ended September 30, 2024 versus 2023 Increase (Decrease) Due to Change in ⁽¹⁾		
	Average Volume	Average Rate	Net Change
	(in thousands)		
Interest income			
Investment securities ⁽²⁾	\$ (262)	\$ 251	\$ (11)
Loans	99	4,770	4,869
Interest bearing deposits with banks, Federal funds sold and other	1,126	72	1,198
Restricted investment in bank stocks	49	12	61
Other investments	2	118	120
Total interest income ⁽²⁾	1,014	5,223	6,237
Interest expense			
Interest bearing demand deposits	(557)	493	(64)
Money market deposits	1,047	1,140	2,187
Savings deposits	(79)	176	97
Time deposits	315	2,076	2,391
Total interest bearing deposits	726	3,885	4,611
Borrowings	524	112	636
Subordinated debentures	(337)	(163)	(500)
Total interest expense	913	3,834	4,747
Net interest income ⁽²⁾	\$ 101	\$ 1,389	\$ 1,490

(1) Changes in interest income or expense attributable to both changes in volume and changes in rate have been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

(2) Tax equivalent using a federal income tax rate of 21%.

	Nine Months Ended September 30, 2024 versus 2023 Increase (Decrease) Due to Change in ⁽¹⁾		
	Average Volume	Average Rate	Net Change
	(in thousands)		
Interest income			
Investment securities ⁽²⁾	\$ (262)	\$ 736	\$ 474
Loans	18,886	20,617	39,503
Interest bearing deposits with banks, Federal funds sold and other	3,516	485	4,001
Restricted investment in bank stocks	116	129	245
Other investments	80	124	204
Total interest income ⁽²⁾	22,336	22,091	44,427
Interest expense			
Interest bearing demand deposits	2,608	2,353	4,961
Money market deposits	5,538	5,206	10,744
Savings deposits	8	570	578
Time deposits	2,265	7,131	9,396
Total interest bearing deposits	10,419	15,260	25,679
Borrowings	1,179	741	1,920
Subordinated debentures	(133)	(464)	(597)
Total interest expense	11,465	15,537	27,002
Net interest income ⁽²⁾	\$ 10,871	\$ 6,554	\$ 17,425

(1) Changes in interest income or expense attributable to both changes in volume and changes in rate have been allocated in proportion to the relationship of the absolute dollar amount of change in each category.

(2) Tax equivalent using a federal income tax rate of 21%.

Our net interest margin on a tax equivalent basis was 3.48% for the three months ended September 30, 2024, compared to 3.36% for the same period in 2023. The net interest margin is calculated by dividing net interest income by average interest earning assets. Our tax equivalent net interest margin includes the impact of amortization of premiums and discounts from fair value measurements of assets acquired and liabilities assumed in acquisitions which totaled \$3.4 million during the third quarter of 2024 and \$11.2 million during the nine months ended September 30, 2024 compared to \$2.7 million for both the three and nine months ended September 30, 2023. The increase was due to the Malvern acquisition completed in the third quarter of 2023.

The increase in the margin compared to the prior year periods was due to an increase in interest income from loans due to substantial loan growth related to the Malvern acquisition in the third quarter of 2023 and higher loan yields, which were partially offset by increased interest expense related to the higher cost of deposits and an expanded deposit base.

Net interest income on a tax equivalent basis increased \$1.5 million, or 5.2%, to \$30.2 million for the three months ended September 30, 2024, compared to \$28.6 million for the same period in 2023. The increase was due to an increase of \$6.2 million in interest income in the third quarter of 2024 which was partially offset by a \$4.7 million increase in interest expense for the same period. Interest income on loans increased \$4.9 million, or 10.6%, to \$51.0 million for the three months ended September 30, 2024, compared to \$46.1 million for the same period of 2023. Interest income on deposits with banks and federal funds sold and other interest earning assets increased \$1.4 million, or 53.2%, to \$4.0 million for the three months ended September 30, 2024, compared to \$2.6 million for the same period of 2023. Interest income on investment securities remained virtually the same for the three months ended September 30, 2024 and 2023. Interest expense on deposits increased by \$4.6 million, or 25.0%, to \$23.0 million for the three months ended on September 30, 2024, compared to \$18.5 million for the same period of 2023. Interest expense on borrowings increased by \$636,000, or 33.2%, to \$2.6 million for the three months ended on September 30, 2024, compared to \$1.9 million for the same period of 2023. Increases in both interest income and interest expense were primarily a result of growth from the Malvern acquisition, as well as the interest rate environment during the quarter.

[Table of Contents](#)

Net interest income on a tax equivalent basis increased \$17.4 million, or 23.7%, to \$91.0 million for the nine months ended September 30, 2024, compared to \$73.5 million for the same period in 2023. The increase in net interest income was due to an increase of \$44.4 million in interest income compared to an increase of \$27.0 million in interest expense for nine months ended September 30, 2024. Interest income on loans increased \$39.5 million, or 35.4%, to \$151.0 million for the nine months ended September 30, 2024, compared to \$111.5 million for the same period of 2023. Interest income on deposits with banks and federal funds sold and other interest earning assets increased \$4.5 million, or 73.8%, to \$10.5 million for the nine months ended September 30, 2024, compared to \$6.0 million for the same period of 2023. Interest income on investment securities increased \$474,000, or 14.3%, to \$3.8 million for the nine months ended September 30, 2024, compared to \$3.3 million for the same period in 2023. Interest expense on deposits increased by \$25.7 million, or 63.3%, to \$66.3 million for the nine months ended on September 30, 2024, compared to \$40.6 million for the same period of 2023. Interest expense on borrowings increased by \$1.9 million, or 38.9%, to \$6.9 million for the nine months ended on September 30, 2024, compared to \$4.9 million for the same period of 2023. Increases in both interest income and interest expense for the comparable nine-month periods were also primarily a result of growth from the Malvern acquisition, as well as the interest rate environment during the nine-month period.

The primary contributor to the increase in interest income for the three months ended September 30, 2024 compared to the same period in 2024 was an increase of 64 basis points in the average rate on loans. This increase was offset by an increase in interest expense on deposits for the three months ended September 30, 2024 compared to the same prior year period, with an increase in average interest bearing deposits of \$34.7 million and a 70 basis point increase in the average rate on interest bearing deposits.

The increase in loan interest income for the nine months ended September 30, 2024 compared to the same period in 2023 was primarily due to the increase in average loans of \$405.5 million coupled with an increase of 97 basis points in the average rate on loans, partially offset by an increase in interest expense on interest bearing deposits of \$25.7 million for the same period ended September 30, 2024. Average interest bearing deposits grew to \$2.48 billion an increase of \$454.3 million with an 89 basis points increase in the average rate on interest bearing deposits.

Average deposits with banks and federal funds were \$265.5 million for the three months ended September 30, 2024 compared to \$182.1 million for the same period in 2023, an increase of 45.8%. The average yield on deposits with banks and federal funds for the three months ended September 30, 2024 increased 16 basis points to 5.38% compared to 5.22% for the same period in 2023. The significant increase in the average balance of federal funds and deposits with banks and increased yield resulted in an increase in interest income of \$1.2 million, or 50.0% for the three months ended September 30, 2024 compared to the same period in 2023.

Average deposits with banks and federal funds were \$231.2 million for the nine months ended September 30, 2024 compared to \$143.9 million for the same period in 2023, an increase of 60.6%. The average yield on deposits with banks and federal funds for the nine months ended September 30, 2024 increased 41 basis points to 5.43% compared to 5.02% for the same period in 2023. This significant increase in the average balance of federal funds and deposits with banks and increased yield resulted in an increase in interest income of \$4.0 million, or 74.0% for the nine months ended September 30, 2024 compared to the same period in 2023.

Average investment securities were \$137.2 million for the three months ended September 30, 2024 compared to \$169.2 million for the same period in 2023. The average tax equivalent yield on investment securities for the three months ended September 30, 2024 increased 67 basis points to 3.61% compared to 2.94% for the same period in 2023. Our investment securities yield is affected by the U.S. Treasury yield curve and the types and durations of securities purchased. Though there was a decrease of \$32.0 million in the average balance of investments securities, higher investment yield resulted in slight decrease of \$11,000 in interest income on investment securities on a tax equivalent basis for the three months ended September 30, 2024 compared to the same period in 2023. Investment securities totaling \$11.7 million were sold during the quarter ended September 30, 2024, which resulted in a \$555,000 net loss on the sale of these investments.

Average investment securities were \$143.5 million for the nine months ended September 30, 2024 compared to \$155.1 million for the same period in 2023. The average tax equivalent yield on investment securities for the nine months ended September 30, 2024 increased 67 basis points to 3.53% compared to 2.86% for the same period in 2023. Though the average balance of investments securities declined by \$11.6 million compared to the prior year quarter, higher investment yield resulted in interest income on investment securities on a tax equivalent basis increasing \$474,000, or 14.3%, for the nine months ended September 30, 2024 compared to the same period in 2023.

[Table of Contents](#)

The average balance of interest bearing liabilities increased \$56.4 million, or 2.1%, to \$2.73 billion for the three months ended September 30, 2024, compared to \$2.67 billion for the same period in 2023. The increase was due to average balance increases in deposits and an increase in average borrowings, which was partially offset by a decrease in subordinate debentures. Average subordinated debentures in 2023 included \$25.5 million assumed as part of Malvern acquisition which was redeemed in the first quarter of 2024. The cost of average interest bearing liabilities increased 62 basis points to 3.79% for the three months ended September 30, 2024 compared to 3.17% for the same period in 2023. Interest expense on average interest bearing liabilities increased \$4.7 million for the three months ended September 30, 2024 compared to the same period in 2023. The increase in interest expense for the three month comparative period was due to the increase in rates paid on interest bearing deposits and borrowings coupled with an increase in interest bearing liability balances, primarily as a result of the Malvern acquisition. Average interest bearing deposits for the three month comparative period increased \$34.7 million while average rates increased 70 basis points. As reflected in our results over the last several quarters, we experienced deposit pricing pressure and deposit mix shift towards higher-cost products given the current interest rate environment. Interest bearing deposits represented 83.4% of deposits at September 30, 2023, and 83.0% at September 30, 2024. Our total cost of deposits increased to 3.05% for the quarter ended September 30, 2024 from 2.47% during the quarter ended September 30, 2023. Non-interest bearing deposits as a percentage of deposits increased to 17.0% at September 30, 2024 compared to 16.6% at September 30, 2023.

Average interest bearing liabilities increased by \$484.3 million to \$2.70 billion from \$2.21 billion for the nine months ended September 30, 2024. The increase was due to average balance increases in all categories of deposits and an increase in average borrowings. The cost of average interest bearing liabilities increased 82 basis points to 3.68% for the nine months ended September 30, 2024 compared to 2.86% for the same period in 2023. Interest expense on average interest bearing liabilities increased \$26.9 million for the nine months ended September 30, 2024 compared to the same period in 2023. This increase was due to an increase in rates paid on interest bearing deposits, borrowings and subordinated debentures coupled with an increase in average balances of interest bearing liabilities. Our total cost of deposits increased to 2.97% for the nine months ended September 30, 2024 from 2.15% during the same period ended September 30, 2023.

After a prolonged period of a historically lower interest rate environment, the Federal Open Market Committee (“FOMC”) began raising the targeted Federal funds rate in March 2022. The targeted Federal Funds upper limit rate was 0.25% prior to the first rate increase in March 2022. The Federal Reserve raised the Federal funds rate a total of 425 basis points during 2022 with the targeted Federal Funds upper limit rate at 4.50% at year-end 2022. The FOMC continued to increase rates with additional 25 basis point increases in each of February, March, May and July 2023. The Federal Funds upper limit rate had remained at 5.50% since July 2023 until the rate was reduced to 5.00% on September 18, 2024. We have continued to operate in a difficult period of interest rate environment as deposit costs continued to rise and the inverted yield curve puts a strain on our spread based lending, however, our selective and prudent lending strategies have led to higher yields on loans. Margin pressure has also been offset somewhat by acquisition accounting accretion. We expect interest income will be negatively impacted by the late September fed rate cut, however, we still have loans that were originated in a lower rate environment that will be repricing higher and we believe we have significant flexibility to reduce deposit rates lower.

In the current rate and economic environment, we will continue our focus on liquidity to ensure our liquidity position remains satisfactory to meet our funding requirements. Also, our deposit goals remain unchanged, we will continue to build strong customer relationships that will help us grow core deposits and reduce our reliance on higher cost deposits, which is expected to assist in managing our cost of funds. The deposit environment continues to be a challenge. We have lowered rates on a significant portion of our deposit base after the recent rate cut. We continue to manage a well-balanced asset and liability position which we expect will lead to a relatively stable margin regardless of the timing of any further rate redirections.

Credit Loss Expense

The Company recorded a credit loss expense totaling \$1.6 million during the three months ended September 30, 2024, compared to a credit loss expense totaling \$6.7 million for the same period of the previous year. A credit loss expense of \$944,000 was recorded for the nine months ended September 30, 2024 compared to an expense of \$8.2 million for the same period of 2023. Credit loss expense for the third quarter of 2024 was commensurate with robust organic loan growth during the quarter and continued to reflect strong and stable asset quality. Credit loss expense for the third quarter of 2023 included a \$5.5 million credit loss recorded to establish the allowance for credit losses on the acquired Malvern loan portfolio. The credit loss expense for the three and nine-month periods of 2023 were commensurate with organic loan growth during those periods. Our ratio of nonperforming loans to total loans was 0.39% at September 30, 2024 compared to 0.83% at December 31, 2023 and 0.80% at September 30, 2023. The allowance for credit losses to total loans ratio was 1.21% at September 30, 2024 compared to 1.40% at December 31, 2023 and 1.42% at September 30, 2023. The allowance for loan losses to nonperforming loans ratio was 311.59% at September 30, 2024 compared to 169.66% at December 31, 2023 and 177.50% at September 30, 2023. See “Allowance for Credit Losses” below for additional information.

Non-Interest Income

Non-interest income consists of income from service charges and related fees on deposit and loan accounts, income from BOLI, gains or losses on sale of loans and investments, gains on recovery of acquired loans and fees for other banking services. For the three months ended September 30, 2024 and 2023, non-interest income represented 7.6% and 0.7% respectively of our total net revenue, defined as net interest income plus total non-interest income. While our strategic focus on net interest income continues, we have benefitted from targeted programs we have implemented to generate non-interest income. The expansion of our customer base, organically and through acquisition, coupled with the introduction of enhanced product offerings has contributed to the level of service fees on deposit accounts. In addition, we are growing our Small Business Administration ("SBA") loan business and have a loan swap program in place for certain borrowers that also generates non-interest income.

For the three months ended September 30, 2024, the Company recorded non-interest income of \$2.5 million, compared to \$193,000 during the same period in 2023. The increase in non-interest income was primarily related to approximately \$1.1 million in one-time enhancement to the cash surrender value of BOLI that resulted from the BOLI restructuring during the quarter, as well as higher yields earned on the new BOLI policies purchased during the quarter. Additionally, the Bank recorded \$135,000 in net gains on the sale of loans during third quarter of 2024, compared to net losses on the sale of loans totaling \$704,000 in the same period prior year. An increase of \$148,000 from service fees on deposit accounts and loan fees, primarily from the additional Malvern customers; as well as small increase in gains on recovery of acquired loans and other non-interest income also contributed to the increase in non-interest income. The Company also realized a loss on sale of securities for both the three-month periods ending September 30, 2024 and 2023 of \$555,000 and \$527,000, respectively.

Non-interest income totaled \$5.1 million for the nine months ended September 30, 2024, compared to \$2.3 million for the same period in 2023, an increase of \$2.8 million. The increase was primarily driven by a \$1.3 million increase in BOLI income, of which \$1.1 million was the aforementioned one-time enhancement to the cash surrender value and a \$187,000 death benefit in the first quarter of 2024. Also contributing to the non-interest income increase, was an increase of \$315,000 from service fees on deposit accounts, primarily from the additional Malvern customers; as well as an increase in other non-interest income, loan fees and gains on recovery of acquired loans of \$282,000, \$178,000 and \$114,000, respectively. The Company realized loss on sale of securities for both nine-month periods ending September 30, 2024 and 2023 of \$555,000 and \$734,000, respectively. The losses on the sale of loans and investments were primarily related to certain balance sheet repositioning that allowed the Bank to sell off lower yielding assets and reinvest into higher yielding assets.

Non-Interest Expense

Non-interest expense consists primarily of salaries and employee benefits, occupancy and equipment expense and other expenses related to conducting our operations and growing our business. Such other expenses primarily include data processing fees, marketing expenses, loan origination expenses and expenses associated with the management of problem assets, including other real estate owned ("OREO"), and regulatory and professional fees.

For the three months ended September 30, 2024, non-interest expense totaled \$18.6 million, which was \$4.8 million, or 20.6%, lower than the same prior year period. The lower non-interest expense was largely due to \$7.0 million in merger-related expenses recorded during the third quarter of 2023. Excluding merger-related expenses, non-interest expense grew \$2.2 million, or 13.3%, primarily due to the increased operating expenses associated with the Malvern acquisition, including increases of \$849,000 in salaries and employee benefits due to merit increases and a larger employee base, \$165,000 in occupancy and equipment due to an expanded branch network and \$312,000 in other professional fees primarily related to increases in information technology project consulting fees, personnel placement services and increases in audit and tax services. OREO expense totaled \$662,000 in the third quarter of 2024, with no similar expense recorded in the same period of 2023. The increase reflects a \$362,000 impairment of an OREO asset along with other legal and real estate tax expenses.

[Table of Contents](#)

For the nine months ended September 30, 2024 non-interest expense totaled \$54.4 million compared to \$50.8 million for the nine months ended September 30, 2023. The largest component of non-interest expense is salaries and employee benefits. Salaries and employee benefits expense totaled \$30.2 million for the nine months ended September 30, 2024 compared to \$25.3 million for the same period in 2023, an increase of \$4.9 million, or 19.2%, the increase was due to increased headcount, primarily due to the Malvern merger and merit adjustments and the corresponding increase in employee benefit costs. Our full-time equivalent staff was 313 at September 30, 2024 compared to 286 at December 31, 2023 and 286 at September 30, 2023. Other professional fees increased \$748,000 for the nine-month period compared to same period in 2023 primarily due to the same reasons discussed above for the three-month period ended September 30, 2024. Other real estate owned expense totaled \$879,000 an increase of \$841,000 compared to 2023, the increase was primarily from \$362,000 impairment of an OREO mentioned above.

Occupancy and equipment expense is generally our second largest component of non-interest expense and consists primarily of rent, real estate taxes, maintenance costs and expenses associated with equipment. Occupancy and equipment expense increased \$1.1 million and \$165,000, or 21.2% and 8.6%, respectively, for the three and nine months ended September 30, 2024 compared to the prior year period. The increase was mainly related to the expansion from the Malvern acquisition.

Regulatory fees increased \$133,000 and \$625,000, or 22.4% or 46.5%, for the three and nine months ended September 30, 2024 respectively, compared to the prior year period. The increase was primarily due to asset growth from the Malvern acquisition.

Other expenses rose \$2.1 million for the nine months ended September 30, 2024 compared to the same period in 2023. Other expenses include all expense items that are not categorized in one of our other non-interest expense line items. These items include publications and subscriptions, certain loan origination or loan workout expenses, dues and memberships, postage and freight and various other miscellaneous expense items. The increases for the comparative periods were primarily due to the increase in core deposit intangible amortization, higher Pennsylvania shares tax and other miscellaneous expense increases that were due to our significant growth, primarily as a result of the Malvern acquisition.

Merger-related expenses totaled \$7.7 million for the nine months ended September 30, 2023. The increase in all categories of non-interest expenses were partially offset by the absence of merger-related expenses for the nine months ended September 30, 2024.

Our efficiency ratio for the three months ended September 30, 2024 was 58.5% compared to 54.8% for the same period last year. Our efficiency ratio for the nine months ended September 30, 2024 was 56.6% compared to 55.7% for the same period in 2023. Our efficiency ratio was impacted by the interest rate environment, inflationary pressures and the impact from strategic investments. We continue to focus on our operating efficiency, even though we have experienced pressure on our margin and the continued impact of inflation on our expense base. The efficiency ratio is a non-GAAP financial measure that we believe is widely followed in the banking industry and is useful to our management and investors in evaluating our financial performance. This measure should not be directly compared to similarly titled measures reported by other companies, as we cannot guarantee other companies present similar measures in the same way.

[Table of Contents](#)

The following table provides a reconciliation between certain GAAP financial measures (net interest income, non-interest income and non-interest expense) and the related non-GAAP measures (adjusted non-interest expense and adjusted total revenue) to derive the efficiency ratio measure:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	(dollars in thousands)			
Non-interest expense	\$ 18,644	\$ 23,486	\$ 54,407	\$ 50,764
Less: Merger-related expenses	-	7,028	-	7,710
Adjusted non-interest expense (numerator)	<u>\$ 18,644</u>	<u>\$ 16,458</u>	<u>\$ 54,407</u>	<u>\$ 43,054</u>
Net interest income	\$ 30,094	\$ 28,594	\$ 90,952	\$ 73,517
Non-interest income	2,479	193	5,132	2,285
Total net revenue	<u>32,573</u>	<u>28,787</u>	<u>96,084</u>	<u>75,802</u>
Add: Loss on sale of investment securities, net	555	527	555	734
Add (subtract): Losses (gains) on sale loans, net	(135)	771	536	771
Less: Bank Owned Life Insurance Incentive	(1,116)	-	(1,116)	-
Adjusted total revenue (denominator)	<u>\$ 31,877</u>	<u>\$ 30,085</u>	<u>\$ 96,059</u>	<u>\$ 77,307</u>
Efficiency ratio	58.49%	54.71%	56.64%	55.69%

Income Tax Expense

Income tax expense for the three months ended September 30, 2024 was \$4.2 million with an effective tax rate of 33.9%, compared to a tax benefit of \$78,000 with an effective tax rate of 5.8% for the third quarter of 2023. The effective tax rate for the nine months of 2024 included approximately \$1.2 million of tax expense recorded related to the BOLI restructuring. Excluding this impact, the effective tax rate would have been approximately 24% for the third quarter of 2024.

The Company recorded a \$9.0 million tax expense for the nine months ended September 30, 2024, reflecting an effective tax rate of 22.1% compared to \$4.3 million with an effective tax rate of 25.5% for the same period of 2023. The effective tax rate for the third quarter of 2024 included approximately \$1.2 million of tax expense recorded related to the BOLI restructuring, while the effective tax rate for the second quarter of 2024 was lower due to the recently enacted New Jersey Corporate Transit Fee, which resulted in a change in tax rate and a revaluation of the Bank's deferred tax assets. A benefit of \$1.1 million was booked as a discrete item in the second quarter for this change in tax rate. Along with the one time discrete item in the second quarter of 2024, the effective tax rate for the first quarter of 2024 was also lower due to certain discrete items related to a tax benefit from the vesting of restricted stock during the quarter, benefits regarding the finalization of the Malvern short period tax returns filed in the first quarter of 2024, and the recognition of \$104,000 interest income received from a New Jersey tax refund related to an amended return previously filed. We anticipate that our future effective tax rate will range between 24% and 25%.

Our federal corporate income tax rate for the periods presented was 21%. We are primarily impacted by New Jersey state tax laws. On June 28, 2024, New Jersey passed legislation which enacts a 2.5% surtax, termed the "Corporate Transit Fee," on certain Corporation Business Tax ("CBT") taxpayers that have New Jersey allocated taxable net income over \$10 million. The new surtax is in addition to the CBT and applies to privilege periods beginning on or after Jan. 1, 2024, through Dec. 31, 2028. The Corporate Transit Fee of 2.5% is levied on businesses with annual taxable net income allocated to New Jersey greater than \$10 million for the 2024–2028 privilege periods. Accordingly, these businesses will be subject to an 11.5% tax rate as opposed to the standard CBT rate of 9%. The new 11.5% rate will be imposed on the entire amount of the Company's taxable net income, not just our net income that exceeds \$10 million.

Our effective tax rate reflects the ownership of tax-exempt bank-owned life insurance and tax-free municipal securities, the benefit of our real estate investment trust and our participation in an historic tax credit. We continue to work with our tax advisors to identify opportunities to reduce our overall tax liability.

Comparison of Financial Condition at September 30, 2024 and December 31, 2023

Assets

Total assets increased \$148.3 million or 4.1% from \$3.61 billion at December 31, 2023 to \$3.76 billion at September 30, 2024, primarily due to increases in cash and cash equivalents and loans.

Loans

Our loan portfolio consists primarily of commercial real estate and commercial and industrial loans. Loans, net of deferred fees and costs, increased from \$3.02 billion at December 31, 2023 to \$3.09 billion at September 30, 2024, a net increase of \$66.0 million, or 2.2%.

The following table reflects the composition of the loan portfolio as of the dates indicated:

	September 30, 2024	December 31, 2023
	(in thousands)	
Commercial and industrial	\$ 546,541	\$ 506,849
Commercial real estate:		
Owner-occupied	688,988	612,352
Investor	1,170,508	1,221,702
Construction and development	193,460	186,829
Multi-family	267,861	271,058
Total commercial real estate	2,320,817	2,291,941
Residential real estate:		
Residential mortgage and first lien home equity loans	144,081	156,024
Home equity—second lien loans and revolving lines of credit	49,763	44,698
Total residential real estate	193,844	200,722
Consumer and other	29,518	25,343
	3,090,720	3,024,855
Net deferred loan fees and costs	(3,232)	(3,354)
Total loans	\$ 3,087,488	\$ 3,021,501

At September 30, 2024, total commercial loans represented 92.9% of total loans, which included the balances in commercial and industrial and commercial real estate in the above table. We manage risk associated with our commercial loan portfolio through disciplined underwriting policies and procedures, diversification and loan monitoring practices. The majority of our commercial and industrial loans are secured by business assets and many of our commercial real estate and commercial and industrial loans are supported by personal guarantees and other assets of the principals or borrowers.

Our commercial and industrial loans (“C&I”) typically consist of loans for working capital needs of small- to mid-sized businesses. Commercial and industrial loans increased by \$40.0 million, or 7.8%, to \$546.5 million at September 30, 2024, compared to \$506.8 million at December 31, 2023. Our strategic goal is to build this segment of the loan portfolio across a wide variety of industry classifications as we grow. We monitor loan concentrations by industry classification and diversify risk as we deem appropriate.

Commercial real estate loans, the largest component of our loan portfolio, are composed of owner-occupied, investor, construction and development, and multi-family loans. We endeavor to maintain a diversified real estate portfolio to protect against a potential downturn in any one business sector. Commercial real estate loans increased \$28.9 million, or 1.3%, to \$2.32 billion at September 30, 2024 compared to \$2.29 billion at December 31, 2023. Owner-occupied real estate loans increased by \$76.6 million and construction and development loans increased by \$6.6 million during the first nine months of 2024. These increases were partially offset by a decrease in investor commercial real estate and multi-family loans totaling \$54.4 million during the first nine months of 2024. The Bank continues to prioritize relationship-based commercial lending while actively reducing our concentration in investor real estate lending.

Residential real estate loans decreased slightly totaling \$193.8 million at September 30, 2024 compared to \$200.7 million at December 31, 2023. Home equity-second lien loans and revolving lines of credit increased \$5.1 million from December 31, 2023 to September 30, 2024.

[Table of Contents](#)

Consumer and other loans totaled \$29.5 million and \$25.3 million at September 30, 2024 and December 31, 2023, respectively. Consumer and other loans represented 0.9% and 0.8% of total loans at September 30, 2024 and at December 31, 2023, respectively.

Nonperforming Assets

Nonperforming assets consist of loans on a nonaccrual basis, loans 90 days or more past due and still accruing and OREO.

The following table reflects the composition of our nonperforming assets as of the dates indicated:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
	<u>(dollars in thousands)</u>	
Nonaccrual loans:		
Commercial and industrial	\$ 972	\$ 2,567
Commercial real estate:		
Owner-occupied	4,449	2,541
Investor	-	-
Construction and development	-	-
Multi-family	202	222
Residential real estate:		
Residential mortgage and first lien home equity loans	892	2,286
Home equity—second lien loans and revolving lines of credit	370	213
Consumer and other	4	6
Total nonaccrual loans	6,889	7,835
Total PCD Non-accruing loans	5,125	17,029
Loans past due 90 days or more and still accruing	-	125
Total nonperforming loans	12,014	24,989
Other real estate owned, net	5,637	-
Total nonperforming assets	<u>\$ 17,651</u>	<u>\$ 24,989</u>
Nonaccrual loans to total loans	0.22%	0.26%
Nonperforming loans to total loans	0.39%	0.83%
Nonperforming assets to total assets	0.47%	0.69%

Nonperforming assets as a percentage of total assets were 0.47% at September 30, 2024 and 0.69% at December 31, 2023. Nonperforming loans as a percentage of total loans were 0.39% at September 30, 2024 and 0.83% at December 31, 2023. PCD non-accruing loans totaled \$5.1 million at September 30, 2024 and \$17.0 million at December 31, 2023. The decline was primarily attributable to the foreclosure of a commercial real estate property which was an \$11.5 million Malvern-acquired loan with a \$5.5 million specific reserve as of December 31, 2023, which reduced the Bank's total nonperforming loans and reduced the Bank's reserves on PCD loans and increased our OREO balance.

We continue to maintain a strong asset quality profile. Our level of charge offs, problem loans and delinquencies have remained manageable during a period of economic uncertainty. We are confident that the credit risk in our loan portfolio is well managed due to strong credit risk management and disciplined underwriting standards. We continue to diligently work to reduce nonaccrual loans to maximize our collection of principal and interest. The focus remains on sustaining our strong asset quality although we can provide no assurance in this uncertain economic environment that our positive trends will continue.

Allowance for Credit Losses

As of September 30, 2024, our ACL included an ACL on loans of \$37.4 million, an ACL on HTM securities of \$206,000 and an ACL on off-balance sheet commitments of \$537,000. The ACL on loans is estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications. The level of the allowance is based on our evaluation of estimated lifetime losses in the portfolio, after consideration of the risk characteristics of the loans and prevailing economic conditions. Our methodology for evaluating the adequacy of the ACL consists of several significant criteria, which include a specific allowance for identified distressed credits and a general allowance allocated to segments of the portfolio and homogeneous categories of loans that possess similar risk characteristics. The pools of loans are evaluated for loss exposure based upon historical loss rates for each of those classes of loans, adjusted for qualitative factors. The evaluation process for determining the adequacy of the allowance for credit losses takes place quarterly.

[Table of Contents](#)

The following tables provide information regarding loans charged off, loan recoveries, and the allowance for credit losses for each of the periods presented:

	September 30, 2024	December 31, 2023
	(dollars in thousands)	
Allowance for credit losses on loans	\$ 37,434	\$ 42,397
Total loans, net of deferred fees and costs	\$ 3,087,488	\$ 3,021,501
Nonperforming loans	\$ 12,014	\$ 24,989
Allowance for credit losses to total loans	1.21%	1.40%
Allowance for credit losses to nonperforming loans	311.59%	169.66%
Nonperforming loans to total loans	0.39%	0.83%

	Residential real estate								
	Commercial real estate					Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family				
	(dollars in thousands)								
As of September 30, 2024									
ACL	\$ 14,774	\$ 6,479	\$ 8,847	\$ 1,946	\$ 2,366	\$ 1,199	\$ 1,248	\$ 575	\$ 37,434
% of total ACL	39.47%	17.31%	23.63%	5.20%	6.32%	3.20%	3.33%	1.54%	100.00%
% of total loans	0.48%	0.21%	0.28%	0.06%	0.08%	0.04%	0.04%	0.02%	1.21%
Loan portfolio balance	\$ 546,541	\$ 688,988	\$ 1,170,508	\$ 193,460	\$ 267,861	\$ 144,081	\$ 49,763	\$ 29,518	\$ 3,090,720
% of total loans	17.68%	22.29%	37.87%	6.26%	8.67%	4.66%	1.61%	0.96%	100.00%
Nine months ended September 30, 2024									
Loan charge offs ⁽¹⁾	\$ 845	\$ 15	\$ 5,494	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 6,367
Loan recoveries	456	37	-	-	19	-	-	-	512
Net charge offs (recoveries)	\$ 389	\$ (22)	\$ 5,494	\$ -	\$ (19)	\$ -	\$ -	\$ 13	\$ 5,855
Average loan amounts outstanding	\$ 517,819	\$ 630,568	\$ 1,165,053	\$ 186,391	\$ 272,488	\$ 149,974	\$ 46,516	\$ 27,086	\$ 2,995,895
Annualized net charge offs (recoveries) during the period to average loans outstanding	0.10%	(0.00%)	0.63%	0.00%	(0.01%)	0.00%	0.00%	0.06%	0.26%

(1) Includes \$5.5 million in a PCD loan charge-off which was reserved for through acquisition accounting marks at the time of the Malvern acquisition.

	Residential real estate								
	Commercial real estate					Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	Total
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family				
	(dollars in thousands)								
As of December 31, 2023									
ACL	\$ 14,195	\$ 4,965	\$ 14,887	\$ 2,482	\$ 3,079	\$ 1,310	\$ 926	\$ 553	\$ 42,397
% of total ACL	33.48%	11.71%	35.11%	5.86%	7.26%	3.09%	2.19%	1.30%	100.00%
% of total loans	2.80%	0.81%	1.22%	1.33%	1.14%	0.84%	2.07%	2.18%	1.40%
Loan portfolio balance	\$ 506,849	\$ 612,352	\$ 1,221,702	\$ 186,829	\$ 271,058	\$ 156,024	\$ 44,698	\$ 25,343	\$ 3,024,855
% of total loans	16.75%	20.24%	40.39%	6.18%	8.96%	5.16%	1.48%	0.84%	100.00%
Year Ended December 31, 2023									
Loan charge offs	\$ 1,641	\$ 72	\$ -	\$ -	\$ 123	\$ -	\$ -	\$ 5	\$ 1,841
Loan recoveries	172	120	-	-	8	3	-	-	303
Net (recoveries) charge offs	\$ 1,469	\$ (48)	\$ -	\$ -	\$ 115	\$ (3)	\$ -	\$ 5	\$ 1,538
Average loan amounts outstanding	\$ 435,093	\$ 566,553	\$ 1,089,362	\$ 155,387	\$ 250,175	\$ 141,288	\$ 37,612	\$ 22,564	\$ 2,698,034
Net (recoveries) charge offs during the period to average loans outstanding	0.34%	(0.01%)	-	-	0.05%	-	-	0.02%	0.06%

Table of Contents

	Residential real estate									Total
	Commercial real estate					Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other		
	Commercial and industrial	Owner-occupied	Investor	Construction and development	Multi-family					
(in thousands)										
As of September 30, 2023										
ACL	\$ 13,326	\$ 5,181	\$ 15,691	\$ 2,295	\$ 3,546	\$ 1,380	\$ 991	\$ 470	\$ 42,880	
% of total ACL	31.08%	12.08%	36.59%	5.35%	8.27%	3.22%	2.31%	1.10%	100.00%	
% of total loans	2.79%	0.85%	1.24%	1.36%	1.29%	0.87%	2.14%	2.33%	1.42%	
Loan portfolio balance	\$ 478,120	\$ 607,888	\$ 1,269,134	\$ 168,192	\$ 275,825	\$ 158,487	\$ 46,239	\$ 20,208	\$ 3,024,093	
% of total loans	15.81%	20.10%	41.97%	5.56%	9.12%	5.24%	1.53%	0.67%	100.00%	
Nine months ended September 30, 2023										
Loan charge offs	\$ 1,396	\$ 72	\$ -	\$ -	\$ 123	\$ -	\$ -	\$ 2	\$ 1,593	
Loan recoveries	153	108	-	-	-	3	-	-	264	
Net (recoveries) charge offs	\$ 1,243	\$ (36)	\$ -	\$ -	\$ 123	\$ (3)	\$ -	\$ 2	\$ 1,329	
Average loan amounts outstanding	\$ 418,592	\$ 557,101	\$ 1,037,084	\$ 149,260	\$ 241,698	\$ 135,032	\$ 34,806	\$ 17,753	\$ 2,591,326	
Annualized net (recoveries) charge offs during the period to average loans outstanding	0.40%	(0.01%)	-	-	0.07%	-	-	0.02%	0.07%	

The allowance for credit losses on loans was \$37.4 million at September 30, 2024, compared to \$42.4 million at December 31, 2023. The credit loss expense for loans was \$1.6 million for the first nine months of 2024 compared to a credit loss expense of \$6.7 million during the same period of 2023. During the first nine months of 2024 we recorded \$5.9 million in net charge offs compared to net charge offs of \$1.3 million during the first nine months of 2023. Our allowance for credit losses continues to be supported by stable and solid asset quality metrics and improving economic conditions. The allowance for credit losses constituted 1.21% of total loans at September 30, 2024, compared to 1.40% at December 31, 2023. The decrease in the ACL on loans as a percentage of total loans was primarily due to a \$5.5 million charge-off of a specific reserve on a PCD loan that was moved to OREO during the quarter ended March 31, 2024. The \$5.5 million was reserved for through acquisition accounting marks at the time of the Malvern acquisition. Management believes that the allowance for credit losses at September 30, 2024 remains adequate in relation to expected lifetime losses in the loan portfolio.

For the nine months ended September 30, 2024 and September 30, 2023, annualized net charge offs (recoveries) as a percentage of loans were 0.26% and 0.07%, respectively. Net charge offs and recoveries were \$5.9 million for the nine months ended September 30, 2024, excluding the aforementioned \$5.5 million PCD loan charge-off, we had net charge offs of \$316,000 for the nine months ended September 30, 2024. Our allowance for credit losses as a percentage of non-performing loans was 311.59% at September 30, 2024, compared to 169.66% at December 31, 2023.

Investment Securities

The investment securities portfolio is used principally to assist in managing liquidity, interest rate risk and regulatory capital, and to take advantage of market opportunities that provide favorable returns with limited credit risk.

Investment securities represent 3.2% and 3.9% of total assets at September 30, 2024 and December 31, 2023, respectively. Investment securities decreased to \$120.1 million at September 30, 2024 compared to \$140.1 million at December 31, 2023, a decrease of \$20.0 million, or 14.3%. During the quarter ended September 30, 2024, the Company sold securities of \$11.7 million and recorded a realized loss of \$555,000. There were maturities, calls and principal paydowns in our investment portfolio, which were replaced primarily with additional residential mortgage-backed security purchases. The level and nature of future purchases or sales will be based on our current and projected cash liquidity levels, interest rate risk position, and market conditions.

[Table of Contents](#)

The following table presents the maturity distribution and weighted average yields of our investment securities portfolio on a contractual maturity basis at September 30, 2024:

	September 30, 2024					
	Available for Sale			Held to Maturity		
	Amortized Cost	Fair Value	Weighted Average Yield ⁽¹⁾⁽²⁾	Amortized Cost	Fair Value	Weighted Average Yield ⁽¹⁾⁽²⁾
	(in thousands)					
Due within one year	\$ 2,000	\$ 2,000	5.10%	\$ 1,452	\$ 1,445	3.82%
Due after one year through five years	4,484	4,459	6.13%	4,070	3,967	5.77%
Due after five years through ten years	-	-	-	27,860	24,609	4.52%
Due after ten years	2,846	2,833	6.20%	-	-	-
Residential mortgage-backed securities:						
Issued by FNMA and FHLMC	46,912	43,063	3.19%	10,022	8,603	2.48%
Issued by GNMA	23,354	22,194	4.19%	461	425	3.50%
Total investment securities	<u>\$ 79,596</u>	<u>\$ 74,549</u>	<u>3.81%</u>	<u>\$ 43,865</u>	<u>\$ 39,049</u>	<u>4.14%</u>

(1) Tax equivalent using a federal income tax rate of 21 percent.

(2) Weighted average yield is based on amortized cost.

ASC Topic 326 was adopted by the Company on January 1, 2023. ASC Topic 326 introduces the CECL methodology for estimating allowances for credit losses. ASC Topic 326 applies to all financial instruments carried at amortized cost, including HTM securities.

The following tables present the composition of our investment securities available for sale and held to maturity as of the dates indicated:

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities available for sale				
U.S. Government-sponsored agency securities	\$ 2,000	\$ -	\$ -	\$ 2,000
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	46,912	258	(4,107)	43,063
Issued by GNMA	23,354	104	(1,264)	22,194
SBA pools	2,846	-	(13)	2,833
Asset-backed securities	481	-	(8)	473
Corporate obligations	4,003	-	(17)	3,986
Total	<u>\$ 79,596</u>	<u>\$ 362</u>	<u>\$ (5,409)</u>	<u>\$ 74,549</u>

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment securities available for sale				
U.S. Government-sponsored agency securities	\$ 19,500	\$ 7	\$ (403)	\$ 19,104
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	45,822	64	(5,287)	40,599
Issued by GNMA	23,345	-	(1,592)	21,753
U.S. Treasury securities	1,998	-	(13)	1,985
SBA Pools	3,175	-	(8)	3,167
Asset-backed securities	718	-	(20)	698
Corporate obligations	7,125	-	(289)	6,836
Total	<u>\$ 101,683</u>	<u>\$ 71</u>	<u>\$ (7,612)</u>	<u>\$ 94,142</u>

	September 30, 2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
	(in thousands)				
Investment securities held to maturity					
Residential mortgage-backed securities:					
Issued by FNMA and FHLMC	\$ 10,022	\$ -	\$ (1,419)	\$ 8,603	\$ -
Issued by GNMA	461	-	(36)	425	-
Obligations of state and political subdivisions	6,882	54	(205)	6,731	(4)
Corporate obligations	26,500	8	(3,218)	23,290	(202)
Total	<u>\$ 43,865</u>	<u>\$ 62</u>	<u>\$ (4,878)</u>	<u>\$ 39,049</u>	<u>\$ (206)</u>
	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
	(in thousands)				
Investment securities held to maturity					
Residential mortgage-backed securities:					
Issued by FNMA and FHLMC	\$ 10,792	\$ -	\$ (1,611)	\$ 9,181	\$ -
Issued by GNMA	473	-	(40)	433	-
Obligations of state and political subdivisions	7,244	65	(276)	7,033	(4)
Corporate obligations	25,750	-	(3,911)	21,839	(196)
Total	<u>\$ 44,259</u>	<u>\$ 65</u>	<u>\$ (5,838)</u>	<u>\$ 38,486</u>	<u>\$ (200)</u>

We conduct an impairment evaluation on AFS securities with unrealized losses to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires the Company to reduce the security's amortized cost basis down to its fair value through earnings. We also evaluate the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under ASC Topic 326, and declines due to non-credit factors are recorded in accumulated other comprehensive income ("AOCI"), net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of taxes, on the Consolidated Statements of Financial Condition. Prior to implementation of ASC Topic 326, unrealized losses caused by a credit event would require the direct write-down of the AFS security through the other-than-temporary impairment approach.

We did not record an ACL on the AFS securities at September 30, 2024 or upon implementation of CECL on January 1, 2023. As of September 30, 2024 and December 31, 2023, the Company considers the unrealized losses on the AFS securities to be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. In addition, the Company has the intent and ability to hold these AFS securities until the amortized cost is recovered and it is more likely than not that any of AFS securities in an unrealized loss position would not be required to be sold. At September 30, 2024 and December 31, 2023, unrealized losses were due to market uncertainty resulting from inflation and rising interest rates from the time of the security purchase.

The Company segments its HTM portfolio into agency residential mortgage-backed securities, obligations of state and political subdivisions and corporate obligations to determine the ACL. The ACL is determined based on the Company's historical losses, adjusted for qualitative factors including economic forecasts over a two-year reasonable and supportable forecast period. The Company has determined that for agency residential mortgage-backed securities it would be appropriate to assume the expected credit loss to be zero because these securities are guaranteed by enterprises that have credit ratings on par with the U.S. government or are guaranteed by the U.S. government. This assumption will be reviewed and attested to quarterly.

[Table of Contents](#)

Investment securities with unrealized losses are evaluated quarterly to determine whether there were any credit losses. At September 30, 2024 and December 31, 2023, the Company did not record any ACL against AFS securities. There is an ACL of \$200,000 against HTM securities at December 31, 2023 related principally to corporate obligations, which increased to \$206,000 at September 30, 2024. This conclusion was based on several factors, including the strong credit quality of the securities. We believe that the unrealized losses in the investment portfolio were caused by changes in interest rates, market credit spreads, and perceived and actual changes in prepayment speeds on mortgage-backed securities (“MBS”). In addition, the Company has the intent and ability to hold these AFS securities until the amortized cost is recovered and it is more likely than not that any of AFS securities in an unrealized loss position would not be required to be sold.

At September 30, 2024, the Company had no HTM securities that were past due 30 days or more as to principal or interest payments. The Company had no HTM securities classified as nonaccrual at September 30, 2024.

The following tables present the activity in the ACL for the held to maturity debt securities:

	Obligations of state and political subdivisions	Corporate obligations	ACL Total
	(in thousands)		
Three Months Ended September 30, 2024			
Balance—beginning of period	\$ 4	\$ 202	\$ 206
Credit loss expense	-	-	-
Balance—end of period	<u>\$ 4</u>	<u>\$ 202</u>	<u>\$ 206</u>
	Obligations of state and political subdivisions	Corporate obligations	ACL Total
	(in thousands)		
Nine Months Ended September 30, 2024			
Balance—beginning of period	\$ 4	\$ 196	\$ 200
Credit loss expense	-	6	6
Balance—end of period	<u>\$ 4</u>	<u>\$ 202</u>	<u>\$ 206</u>

The carrying value of our AFS investment securities portfolio at September 30, 2024 was \$74.5 million, a decrease of \$19.6 million from \$94.1 million at December 31, 2023. The decrease is primarily due to sale of \$11.7 million securities in MBS portfolio during third quarter of 2024, \$25.2 million in maturities and principal paydowns from our residential mortgage-backed securities portfolio, which was offset by \$15.5 million in purchases. As of September 30, 2024, the AFS portfolio had net unrealized losses of \$5.0 million compared to \$7.5 million at December 31, 2023.

HTM investment securities, net of allowance, totaled \$43.7 million at September 30, 2024, compared to \$44.1 million at December 31, 2023, a decrease of \$400,000. The decrease in HTM securities was primarily due to a call of a \$1.5 million corporate bond, \$310,000 due to maturity, and \$763,000 in principal paydowns from our residential mortgage-backed securities portfolio, partially offset by \$2.2 million purchases during the first nine months of 2024.

Mortgage-Backed Securities

We held \$70.3 million and \$10.5 million (amortized cost) of MBS at September 30, 2024 in our AFS and HTM securities portfolios, respectively. We held \$69.2 million and \$11.3 million (amortized cost) of MBS at December 31, 2023 in our AFS and HTM securities portfolios, respectively. All of these MBS were issued by the Federal National Mortgage Association (“FNMA”), Federal Home Loan Mortgage Corp (“FHLMC”), or Government National Mortgage Association (“GNMA”). We generally purchase MBS with average lives of less than five years in the base case that have limited extension risk in a +300 basis point rate scenario. MBS are expected to provide stable cash flows or liquidity in rising or falling interest rate environments through the monthly payment of principal and interest. Principal paydowns from the MBS portfolio totaled \$10.0 million for the nine months ended September 30, 2024. Like all securities we own, MBS are sensitive to changes in interest rates, increasing and decreasing in market value as interest rates rise and fall. As interest rates rise, cash flows from MBS prepayments generally decline while the durations extend. On the other hand, when interest rates fall, prepayments generally increase, which may reduce the yield on MBS with reinvestment of the proceeds generally at lower yields.

Equity Securities

The Company has one equity security carried at fair value as of September 30, 2024, with a fair value of \$1.9 million and an amortized cost of \$2.0 million. The equity security is a CRA eligible fund that is actively traded and has a readily determinable fair value. Based on the guidance in FASB Codification – ASC Topic 321 Investments – Equity Securities (ASC 321), equity investments with readily determinable fair values should be measured at fair value with changes in the value recorded through net income. The change in fair value is recorded in other income in the Consolidated Statement of Income.

Other Investments

Other investments totaled \$11.1 million and \$9.8 million at September 30, 2024 and December 31, 2023, respectively. Other investments consist primarily of an investment in a SBA Loan Fund with a balance of \$7.4 million and \$7.0 million at September 30, 2024 and December 31, 2023, respectively, and smaller investments in a Community Impact Bond Fund, a business tech fund, and a Small Business and Investment Company (SBIC) Fund. The SBA Loan Fund and the Community Impact Bond Fund were purchased for the purpose of assisting the Company in satisfying its Community Reinvestment Act of 1977 (as amended) requirements. The business tech fund with a balance of \$424,000 specializes in the research, development, proper selection of, and investment in technology companies, as well as the incubation and acceleration of emerging technologies, whose mission is to make banks more competitive in today's market. The SBIC fund will invest into portfolio companies that qualify as economic development activities. These funds are not actively traded and do not have readily determinable fair values. There have been no observable transactions in these Funds or in investments that are identical to these Funds, there is no indication of impairment during 2024 and hence the other investments are carried at cost.

Based on changes in the treasury yield curve we will continue to be opportunistic in building on balance sheet liquidity through the investment portfolio. We continue to monitor the impact of changes in interest rates, cash flows and duration to our investment portfolio's performance and adjust our strategy accordingly within asset and liability objectives.

LIABILITIES

Deposits

Total deposits increased \$82.5 million to \$3.1 billion at September 30, 2024 from \$3.0 billion at December 31, 2023. Non-interest-bearing demand deposits increased \$17.3 million, or 3.5% and, interest bearing demand deposits decreased \$31.3 million, or 5.0%. Non-interest bearing demand showed strong growth in a very dynamic rate environment. Money market and time deposits increased by \$74.4 million and \$32.3 million, or 7.4% and 4.9%, respectively. Savings deposits declined by \$10.2 million, or 6.4%. We continue to effectively manage our customer relationships and maintain or grow deposit balances while also focusing on lowering deposit costs.

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
	(in thousands)	
Non-interest bearing demand deposits	\$ 519,079	\$ 501,763
Interest bearing demand deposits	597,802	629,110
Money market deposits	1,085,987	1,011,591
Savings deposits	149,650	159,849
Time deposits	697,552	665,256
Total deposits	<u>\$ 3,050,070</u>	<u>\$ 2,967,569</u>

Borrowings

At September 30, 2024 and December 31, 2023 borrowings consisted of Federal Home Loan Bank ("FHLB") advances and secured borrowings. We are a member of the FHLB of New York and use FHLB advances as an alternative source of funds for loan growth and to manage liquidity and interest rate risk. Our FHLB advances are collateralized by eligible investment securities and qualifying commercial mortgage loans. FHLB advances and other secured borrowings totaled \$237.0 million and \$167.4 million at September 30, 2024 and December 31, 2023, respectively, which represented 6.3% and 4.6% of total assets at those respective period-ends. Our utilization of FHLB advances in 2024 will continue to focus on meeting asset and liability goals.

At September 30, 2024 and December 31, 2023 borrowings also included certain loan participations sold. Due to rights retained on certain loan participations sold, we determined that we have retained effective control over these loans under FASB ASC 860 Transfers and Servicing. Therefore, these participations sold are accounted for as secured borrowings. These secured borrowings totaled \$7.0 million and \$11.7 million at September 30, 2024 and December 31, 2023, respectively.

Subordinated Debentures

At September 30, 2024 and December 31, 2023, we had \$29.9 million and \$55.3 million, respectively, in subordinated debentures outstanding. On May 29, 2020, we completed a \$30.0 million private placement of fixed-to-floating rate subordinated debentures. The notes have a maturity date of June 1, 2030, and carry a fixed interest rate of 5.50% for the first five years. Thereafter, the notes will pay interest at three-month term SOFR (Secured Overnight Financing Rate) plus 5.38%. The notes include a right of prepayment, without penalty, on or after June 1, 2025.

During the first quarter of 2024, the Company redeemed \$25.5 million of subordinated notes assumed as part of Malvern acquisition. The fair value adjustment of \$409,000, which would have been amortized over the expected life of the notes, was accelerated and fully amortized upon their early redemption.

Liquidity

Our liquidity is a measure of our ability to fund loans, withdrawals of deposits and other cash outflows in a cost-effective manner. Our principal sources of funds include deposits, scheduled amortization and prepayments of loan principal, principal cash flows from mortgage-backed securities, borrowings and funds provided by operations. While scheduled loan payments, borrowings and principal cash flows from mortgage-backed securities are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

Total cash and cash equivalents increased by \$84.3 million during the nine months ended September 30, 2024 to \$312.3 million. The Bank maintained its strong liquidity position despite utilizing cash to retire \$25.0 million in subordinated debentures during the first nine months of 2024. The Bank currently has a strong liquidity base and a diverse source of funding options. We still have significant unused borrowing capacity. We are also working to increase our capacity with both the FHLB and FRB and we have a number of wholesale deposit relationships for contingent funding purposes.

On at least a quarterly basis, the Asset Liability Committee and Board of Directors review a comprehensive liquidity analysis. The analysis provides a summary of the current liquidity measurements, projections, and future liquidity positions given various levels of liquidity stress. Management also maintains a detailed Contingency Funding Plan designed to respond to overall stress in the financial condition of the banking industry or a prospective liquidity problem specific to First Bank.

As of September 30, 2024, our liquid assets (cash and cash equivalents and eligible unpledged securities) totaled \$376.8 million, or 10.0% of total assets, compared to \$294.3 million, or 8.2% of total assets, at December 31, 2023.

As a member of the FHLB, we are eligible to borrow funds up to 50% of our total assets from the FHLB, subject to its collateral requirements. Based on available eligible securities and qualified commercial real estate loan collateral, as of September 30, 2024 we had the ability to borrow \$226.2 million. At September 30, 2024, we had additional borrowing capacity of \$45.5 million through the Federal Reserve Bank discount window and \$85.0 million from three correspondent banks. We pledged additional commercial loans to the FHLB subsequent to quarter-end, which increased our borrowing capacity.

At September 30, 2024, our outstanding commitments to extend credit totaled \$461.2 million.

We have competitively positioned our deposit products and services to continue to add to lower cost core deposits throughout our attractive markets. Based on projected loan and deposit growth, we expect liquidity to remain adequate to support our operations.

CAPITAL AND REGULATORY MATTERS**Stockholders' Equity**

Total stockholders' equity increased from \$370.9 million at December 31, 2023 to \$402.1 million at September 30, 2024, an increase of \$31.2 million, or 8.4%. The increase was primarily the result of net income of \$31.7 million during the first nine months of 2024, which was partially offset by \$4.5 million in dividends paid.

Our tangible stockholders' equity ratio was 9.41% as of September 30, 2024 and 8.89% as of December 31, 2023. Tangible stockholders' equity excludes intangible assets. The tangible stockholders' equity ratio is a non-GAAP financial measure that we believe provides management and investors with information that is useful in understanding our financial performance and condition. This measure should not be directly compared to similarly titled measures reported by other companies, as we cannot guarantee other companies present similar measures in the same way.

The following table provides a reconciliation and calculation of the non-GAAP tangible stockholders' equity ratio:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
	(dollars in thousands)	
Stockholders' equity	\$ 402,070	\$ 370,900
Less: Goodwill and other intangible assets, net	53,484	54,978
Tangible stockholders' equity (numerator)	<u>\$ 348,586</u>	<u>\$ 315,922</u>
Total assets	\$ 3,757,653	\$ 3,609,327
Less: Goodwill and other intangible assets, net	53,484	54,978
Adjusted total assets (denominator)	<u>\$ 3,704,169</u>	<u>\$ 3,554,349</u>
Tangible stockholders' equity ratio	9.41%	8.89%

Accumulated Other Comprehensive Income (Loss)

Our accumulated other comprehensive income or loss position consists of net unrealized gains or losses on investment securities available for sale, net of tax. Based on changes in the U.S. Treasury yield curve, AFS securities values moved slightly lower at September 30, 2024 compared to December 31, 2023, which resulted in net unrealized losses, net of tax, of \$3.8 million, compared to \$5.7 million at December 31, 2023.

Regulatory Capital

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

We are subject to Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. These requirements created a required ratio for common equity Tier 1 ("CET1") capital, increased the leverage and Tier 1 capital ratios, changed the risk weight of certain assets for purposes of the risk-based capital ratios, created an additional capital conservation buffer over the required capital ratios and changed what qualifies as capital for purposes of meeting these various capital requirements.

Under these capital regulations, the minimum capital ratios are: (i) a Tier 1 leverage ratio of 4.0%; (ii) CET1 capital of 4.5% of risk-weighted assets; (iii) Tier 1 capital of 6.0% of risk-weighted assets; and (iv) total capital of 8.0% of risk-weighted assets. CET1 generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

[Table of Contents](#)

The required capital conservation buffer consists of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels. We must maintain such buffer to avoid limitations on paying dividends, engage in share repurchases, and pay discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This capital conservation buffer requirement was phased in over four years. As of September 30, 2024 and December 31, 2023, the fully phased in capital conservation buffer was 2.5%.

Under the regulatory prompt corrective action standards, in order to be considered well capitalized, the Company must have: (i) a Tier 1 leverage ratio of 5.0%; (ii) CET1 capital of 6.5% of risk-weighted assets, (iii) Tier 1 risk-based capital of 8.0% of risk-weighted assets, and (iv) a total risk-based capital ratio of 10.0% of risk-weighted assets.

Our capital amounts and classifications are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The following tables provide our regulatory capital amounts and ratios as well as the required regulatory minimums as of the dates indicated:

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
At September 30, 2024:						
Tier 1 leverage capital	\$ 344,154	9.53%	\$ 144,446	4.00%	\$ 180,558	5.00%
Common equity tier 1 capital	344,154	9.65%	160,415	4.50%	231,711	6.50%
Tier 1 risk-based capital	344,154	9.65%	213,887	6.00%	285,182	8.00%
Total risk-based capital	411,829	11.55%	285,182	8.00%	356,478	10.00%
December 31, 2023:						
Tier 1 leverage capital	\$ 319,713	9.12%	\$ 140,254	4.00%	\$ 175,318	5.00%
Common equity tier 1 capital	319,713	9.22%	156,034	4.50%	225,383	6.50%
Tier 1 risk-based capital	319,713	9.22%	208,046	6.00%	277,394	8.00%
Total risk-based capital	401,692	11.58%	277,394	8.00%	346,743	10.00%

At September 30, 2024 and December 31, 2023, we were well-capitalized for regulatory purposes and met the requirements for maintaining the capital conservation buffer.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Some Specific Factors Affecting Future Results of Operations

Future movement of interest rates cannot be predicted with certainty. Our interest rate risk profile is positioned in such a way that moderate changes in interest rates likely will not have a significant impact on our results of operations. However, because overall future performance is dependent on many other factors, past performance is not necessarily an indication of future results.

Interest Rate Sensitivity Analysis

The Company manages interest rate risk by identifying and quantifying interest rate risk exposures through the use of net interest income simulation and economic value of equity (“EVE”) models. Various assumptions are used to produce these analyses, including, but not limited to, the rates paid on interest bearing non-maturity deposits relative to market interest rates, the level of new and existing business, loan and investment prepayment speeds, the shape of the yield curve and competitive pricing.

[Table of Contents](#)

The Company's simulation model measures the volatility of net interest income to changes in market interest rates by modeling interest income and interest expense dynamically over specified time periods under different interest rate scenarios. The table below sets forth the Company's exposure to interest rate risk as measured by the change in net interest income for the next twelve months with a static balance sheet under various interest rate shocks as of September 30, 2024 and December 31, 2023:

	Net Interest Income			
	September 30, 2024		December 31, 2023	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock ⁽¹⁾				
+ 400	\$ 131,105	2.6%	\$ 118,120	(1.8%)
+ 300	130,269	2.0%	118,659	(1.4%)
+ 200	129,464	1.3%	119,229	(0.9%)
+ 100	128,676	0.7%	119,873	(0.4%)
+ 0 (Static)	127,740	-	120,339	-
- 100	126,080	(1.3%)	120,263	(0.1%)
- 200	124,590	(2.5%)	119,980	(0.3%)
- 300	123,333	(3.5%)	119,383	(0.8%)
- 400	122,430	(4.2%)	119,375	(0.8%)

Economic Value At Risk

The Company's EVE model projects the Company's asset and liability cash flows to their maturity dates, discounting those cash flows at appropriate interest rates, and then aggregating the discounted cash flows. EVE is the estimated net present value of assets less the net present value of liabilities. Market rates are adjusted up and down in the model to calculate the various levels of EVE with interest rate changes. The variance in the economic value of equity is measured as a percentage of the present value of equity. The sensitivity of EVE to changes in the level of interest rates is a measure of potential market value risk. The Company uses the sensitivity of EVE principally to measure the exposure of equity to changes in interest rates over a relatively long-term horizon. The table below sets forth the Company's exposure to interest rate risk as measured by the change in EVE under various interest rate shocks as of September 30, 2024 and December 31, 2023:

	Economic Value of Equity			
	September 30, 2024		December 31, 2023	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock ⁽¹⁾				
+ 400	\$ 378,145	(11.3%)	\$ 339,856	(16.0%)
+ 300	388,819	(8.8%)	353,989	(12.6%)
+ 200	401,829	(5.7%)	369,887	(8.6%)
+ 100	416,500	(2.3%)	386,128	(4.6%)
+ 0 (Static)	426,211	-	404,789	-
- 100	430,917	1.1%	413,888	2.3%
- 200	429,926	0.9%	420,150	3.8%
- 300	424,805	(0.3%)	423,035	4.5%
- 400	406,652	(4.6%)	415,362	2.6%

All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. Actual outcomes could differ significantly from the simulation outcomes. The Company's interest rate sensitivity should be reviewed in conjunction with the condensed consolidated financial statements and notes thereto in the Company's 2023 Annual Report on Form 10-K.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

First Bank's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report, is recorded, processed, summarized and reported within the time periods specified in the FDIC's rules and forms.

(b) Changes in internal control over financial reporting.

For the quarter ended September 30, 2024, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

First Bank is party in the ordinary course of business to litigation involving collection matters, contract claims and other miscellaneous causes of action arising from their business. Management does not consider that any such proceedings depart from usual routine litigation, and in its judgment neither the Company's consolidated financial condition nor its results of operations will be affected materially by any present proceedings.

Item 1A. Risk Factors.

For information regarding the Company's risk factors, see "Item 1A. Risk Factors" in First Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2023 as filed with the FDIC.

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

During the third quarter of 2024, the Bank issued 41,363 shares of Common Stock in connection with the exercise of outstanding stock options previously granted to certain officers and directors. Exercise prices ranged from \$6.00 - \$12.90, the aggregate proceeds from such issuances were \$342,000. The shares were issued in reliance on the exemption provided by Section (3)(a)(2) of the Securities Act of 1933 because the sales involved securities issued by a bank.

As of September 30, 2024, the Company did not have a common share repurchase program. The Company did not repurchase any of its common stock during the quarter ended September 30, 2024. On October 23, 2024, the Company announced a new share repurchase program. The program provides for the repurchase of up to 1.0 million shares of First Bank common stock for an aggregate repurchase amount of up to \$16.0 million. This new share repurchase program was also approved by the Company's board and will run through September 30, 2025. The timing, price and volume of the share repurchases will be determined by management based on relevant securities laws, an evaluation of market conditions and other factors. The share repurchase program does not require the Company to repurchase any specific number of shares and may be suspended, terminated or modified for any reason including market conditions, the cost of repurchasing shares or other factors deemed by management to be appropriate.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

[Table of Contents](#)

Item 5. Other Information.

During the three months ended September 30, 2024, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of the Company's securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" as defined in SEC regulations.

Item 6. Exhibits.

An Exhibit Index has been filed as part of this report and is incorporated herein by reference.

Exhibit Index

Exhibit No.	Description of Exhibit
3.1	First Restated Certificate of Incorporation of First Bank (incorporated by reference to Exhibit 3.1 to the Company's 2019 Annual Report on Form 10-K filed by the registrant with the FDIC on March 27, 2020)
3.2	Amended and Restated Bylaws of First Bank (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the registrant with the FDIC on February 19, 2020)
10.1	First Bank 2024 Equity Incentive Plan (incorporated by reference to Appendix A of the registrant's Proxy Statement filed on March 22, 2024)
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
*	Filed herewith
+	Furnished herewith

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.

FIRST BANK
(Registrant)

Date: November 12, 2024

/s/ Andrew L. Hibshman
Andrew L. Hibshman
Executive Vice President, Treasurer
and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick L. Ryan, Chief Executive Officer of First Bank, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Bank;
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 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 12, 2024

/s/ Patrick L. Ryan

Patrick L. Ryan

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew L. Hibshman, Chief Financial Officer of First Bank, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Bank;
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 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 12, 2024

/s/ Andrew L. Hibshman

Andrew L. Hibshman
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the Quarterly Report on Form 10-Q of First Bank (the "Company") for the period ended September 30, 2024, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), each of the undersigned officers of the Company, certifies, to the best knowledge and belief of the signatory, that the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable; and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Date: November 12, 2024

/s/ Patrick L. Ryan

Patrick L. Ryan

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Andrew L. Hibshman

Andrew L. Hibshman

Executive Vice President, Treasurer and Chief Financial Officer

(Principal Financial Officer)