

**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 June 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

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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 August 7, 2024, there were 25,180,846 shares of the registrant’s Common Stock, par value \$5.00 per share, outstanding.

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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)

	June 30, 2024	December 31, 2023
Assets		
Cash and due from banks	\$ 24,924	\$ 25,652
Restricted cash	14,660	13,770
Interest bearing deposits with banks	201,176	188,529
Cash and cash equivalents	240,760	227,951
Interest bearing time deposits with banks	1,241	996
Investment securities available for sale, at fair value (amortized cost of \$104,545 and \$101,683 at June 30, 2024 and December 31, 2023, respectively)	96,748	94,142
Investment securities held to maturity, net of allowance for credit losses of \$206 at June 30, 2024 and \$200 at December 31, 2023 (fair value of \$38,068 and \$38,486 at June 30, 2024 and December 31, 2023, respectively)	43,813	44,059
Equity securities, at fair value	1,860	1,888
Restricted investment in bank stocks	11,594	10,469
Other investments	10,796	9,841
Loans, net of deferred fees and costs	2,998,029	3,021,501
Less: Allowance for credit losses	(36,252)	(42,397)
Net loans	2,961,777	2,979,104
Premises and equipment, net	21,553	21,627
Other real estate owned, net	5,999	-
Accrued interest receivable	14,314	14,763
Bank-owned life insurance	87,319	86,435
Goodwill	44,166	44,166
Other intangible assets, net	9,860	10,812
Deferred income taxes, net	32,142	30,875
Other assets	31,789	32,199
Total assets	<u>\$ 3,615,731</u>	<u>\$ 3,609,327</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	\$ 499,765	\$ 501,763
Interest bearing deposits	2,467,869	2,465,806
Total deposits	2,967,634	2,967,569
Borrowings	187,064	179,140
Subordinated debentures	29,898	55,261
Accrued interest payable	4,259	2,813
Other liabilities	34,387	33,644
Total liabilities	3,223,242	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; 27,326,047 shares issued and 25,144,983 shares outstanding at June 30, 2024 and 27,149,186 shares issued and 24,968,122 shares outstanding at December 31, 2023	135,202	134,552
Additional paid-in capital	123,353	122,881
Retained earnings	161,140	140,563
Accumulated other comprehensive loss	(5,828)	(5,718)
Treasury stock, 2,181,064 shares at June 30, 2024 and December 31, 2023	(21,378)	(21,378)
Total stockholders' equity	392,489	370,900
Total liabilities and stockholders' equity	<u>\$ 3,615,731</u>	<u>\$ 3,609,327</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Interest and Dividend Income				
Investment securities—taxable	\$ 1,278	\$ 955	\$ 2,460	\$ 1,977
Investment securities—tax-exempt	36	34	74	72
Interest bearing deposits with banks, Federal funds sold and other	3,482	2,184	6,507	3,436
Loans, including fees	50,763	33,748	100,082	65,448
Total interest and dividend income	55,559	36,921	109,123	70,933
Interest Expense				
Deposits	22,386	12,691	43,172	22,104
Borrowings	2,193	1,661	4,309	3,025
Subordinated debentures	440	441	784	881
Total interest expense	25,019	14,793	48,265	26,010
Net interest income	30,540	22,128	60,858	44,923
Credit loss expense (benefit)	63	496	(635)	1,587
Net interest income after credit (benefit) loss expense	30,477	21,632	61,493	43,336
Non-Interest Income				
Service fees on deposit accounts	350	233	694	461
Loan fees	117	18	219	107
Income from bank-owned life insurance	609	378	1,394	747
Losses on sale of investment securities, net	-	-	-	(207)
(Losses) gains on sale of loans, net	(900)	170	(671)	311
Gains on recovery of acquired loans	56	14	174	71
Other non-interest income	457	315	843	602
Total non-interest income	689	1,128	2,653	2,092
Non-Interest Expense				
Salaries and employee benefits	9,968	8,122	20,006	15,994
Occupancy and equipment	2,082	1,613	4,108	3,192
Legal fees	240	198	556	401
Other professional fees	929	598	1,685	1,249
Regulatory fees	640	516	1,242	750
Directors' fees	270	193	512	407
Data processing	749	681	1,555	1,299
Marketing and advertising	377	233	673	473
Travel and entertainment	285	160	529	379
Insurance	251	179	495	352
Other real estate owned expense, net	129	20	217	38
Merger-related expenses	-	221	-	682
Other expense	2,033	1,041	4,185	2,062
Total non-interest expense	17,953	13,775	35,763	27,278
Income Before Income Taxes	13,213	8,985	28,383	18,150
Income tax expense	2,140	2,186	4,798	4,362
Net Income	\$ 11,073	\$ 6,799	\$ 23,585	\$ 13,788
Basic earnings per common share	\$ 0.44	\$ 0.35	\$ 0.94	\$ 0.71
Diluted earnings per common share	\$ 0.44	\$ 0.35	\$ 0.93	\$ 0.71
Basic weighted average common shares outstanding	25,129,199	19,332,703	25,084,558	19,417,388
Diluted weighted average common shares outstanding	25,258,785	19,434,522	25,228,888	19,546,949

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Net income	\$ 11,073	\$ 6,799	\$ 23,585	\$ 13,788
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investments arising during the period	43	(760)	(256)	389
Reclassification adjustment for losses on sale of securities included in net income	-	-	-	207
	43	(760)	(256)	596
Income tax effect	(11)	185	146	(161)
Total other comprehensive income (loss), net of tax	32	(575)	(110)	435
Total comprehensive income	\$ 11,105	\$ 6,224	\$ 23,475	\$ 14,223

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—March 31, 2024	\$ 135,004	\$ 122,913	\$ 151,575	\$ (5,860)	\$ (21,378)	\$ 382,254
Net income	-	-	11,073	-	-	11,073
Other comprehensive income, net of tax	-	-	-	32	-	32
Vesting of restricted stock, 26,247 shares	131	(131)	-	-	-	-
Exercise of stock options, 13,429 shares	67	42	-	-	-	109
Stock-based compensation expense	-	529	-	-	-	529
Cash dividends - common, \$0.06 per share	-	-	(1,508)	-	-	(1,508)
Balance—June 30, 2024	<u>\$ 135,202</u>	<u>\$ 123,353</u>	<u>\$ 161,140</u>	<u>\$ (5,828)</u>	<u>\$ (21,378)</u>	<u>\$ 392,489</u>
Balance—December 31, 2023	\$ 134,552	\$ 122,881	\$ 140,563	\$ (5,718)	\$ (21,378)	\$ 370,900
Net income	-	-	23,585	-	-	23,585
Other comprehensive loss, net of tax	-	-	-	(110)	-	(110)
Vesting of restricted stock, 116,553 shares	583	(583)	-	-	-	-
Exercise of stock options, 13,429 shares	67	42	-	-	-	109
Stock-based compensation expense	-	1,013	-	-	-	1,013
Cash dividends - common, \$0.12 per share	-	-	(3,008)	-	-	(3,008)
Balance—June 30, 2024	<u>\$ 135,202</u>	<u>\$ 123,353</u>	<u>\$ 161,140</u>	<u>\$ (5,828)</u>	<u>\$ (21,378)</u>	<u>\$ 392,489</u>
Balance—March 31, 2023	\$ 104,862	\$ 80,718	\$ 130,808	\$ (6,324)	\$ (15,843)	\$ 294,221
Net income	-	-	6,799	-	-	6,799
Other comprehensive loss, net of tax	-	-	-	(575)	-	(575)
Vesting of restricted stock, 15,471 shares	77	(77)	-	-	-	-
Stock-based compensation expense	-	412	-	-	-	412
Cash dividends - common, \$0.06 per share	-	-	(1,161)	-	-	(1,161)
Purchase of 550,000 shares of common stock	-	-	-	-	(5,535)	(5,535)
Balance—June 30, 2023	<u>\$ 104,939</u>	<u>\$ 81,053</u>	<u>\$ 136,446</u>	<u>\$ (6,899)</u>	<u>\$ (21,378)</u>	<u>\$ 294,161</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	-	-	13,788	-	-	13,788
Other comprehensive income, net of tax	-	-	-	435	-	435
Vesting of restricted stock, 82,829 shares	414	(414)	-	-	-	-
Exercise of stock options, 2,500 shares	13	3	-	-	-	16
Stock-based compensation expense	-	769	-	-	-	769
Cash dividends - common, \$0.12 per share	-	-	(2,328)	-	-	(2,328)
Purchase of 550,000 shares of common stock	-	-	-	-	(5,535)	(5,535)
Balance—June 30, 2023	<u>\$ 104,939</u>	<u>\$ 81,053</u>	<u>\$ 136,446</u>	<u>\$ (6,899)</u>	<u>\$ (21,378)</u>	<u>\$ 294,161</u>

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

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

	Six months ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 23,585	\$ 13,788
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss (benefit) expense	(635)	1,587
Depreciation and amortization of premises and equipment	1,031	768
Amortization and accretion of premiums/discounts on investment securities, net	124	68
Amortization and accretion of fair value adjustments, net	(7,862)	(43)
Amortization and accretion of deferred loan fees and costs, net	(1,336)	(1,127)
Amortization of core deposit intangible assets and loan servicing rights	1,111	128
Amortization of subordinated debentures issuance cost	56	56
Noncash operating lease expense	1,171	941
Stock-based compensation	1,013	769
Losses on sale of investment securities available for sale	-	207
Net loss on equity securities	28	-
Originations of loans held for sale	(9,681)	(3,214)
Proceeds from sale of loans held for sale	31,793	7,285
Losses (gains) on sale of loans	671	(311)
Income from bank-owned life insurance	(1,394)	(747)
Deferred income tax benefit	(1,121)	-
Changes in assets and liabilities:		
Decrease (increase) in accrued interest receivable	449	(493)
Increase in intangible and other assets	(1,587)	(1,016)
Increase in accrued interest payable	1,447	387
Increase (decrease) in other liabilities	1,375	(3,038)
Net cash provided by operating activities	<u>40,238</u>	<u>15,995</u>
Cash flows from investing activities:		
Net (increase) decrease in interest bearing time deposits with banks	(245)	546
Net increase in loans	(1,506)	(101,261)
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	-	6,576
Proceeds from maturities, calls and paydowns of investment securities available for sale	12,499	8,320
Proceeds from maturities, calls and paydowns of investment securities held to maturity	2,382	1,714
Purchase of restricted stocks	(9,376)	(15,156)
Redemption of restricted stocks	8,251	13,384
Purchases of other investments	(1,012)	(595)
Proceeds from other investments	56	-
Purchases of premises and equipment	(920)	(1,808)
Redemption of bank-owned life insurance	323	-
Benefit proceeds on bank-owned life insurance	187	-
Net cash used in investing activities	<u>(6,987)</u>	<u>(90,120)</u>
Cash flows from financing activities:		
Net (decrease) increase in deposits	(467)	105,964
Proceeds from borrowings	190,000	310,000
Repayments of borrowings	(182,076)	(277,554)
Redemption of subordinated debentures	(25,000)	-
Proceeds from stock option exercises	109	16
Cash dividends paid on common stock	(3,008)	(2,328)
Purchase of treasury stock	-	(5,535)
Net cash (used in) provided by financing activities	<u>(20,442)</u>	<u>130,563</u>
Net increase in cash and cash equivalents	12,809	56,438
Cash and cash equivalents at beginning of year	227,951	125,916
Cash and cash equivalents at end of period	<u>\$ 240,760</u>	<u>\$ 182,354</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest on deposits and borrowings	\$ 46,231	\$ 25,583
Cash paid for income taxes	\$ 4,055	\$ 5,835
Supplemental schedule of non-cash activities:		
Vesting of restricted stock	\$ 131	\$ 348
Transfer of loans to other real estate owned	\$ 5,999	\$ -
Transfer of loans receivable to loans held-for-sale	\$ 22,407	\$ 3,355

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 June 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 six months ended June 30, 2024 and 2023, and the Consolidated Statements of Cash Flows for the six months ended June 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 six months ended June 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 six months ended June 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.

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 with the exception of 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, relating to past events, current conditions, and 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

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 is currently evaluating the impact of this standard on the condensed consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

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 is currently evaluating the impact of this standard on the condensed consolidated financial statements.

Accounting Standards Update 2024-01 “Compensation - Stock Compensation (Topic 718) - Scope Application of Profits Interest and Similar Awards” (“ASU 2024-01”) clarifies how an entity determines whether a profits interest or similar award is within the scope of Topic 718 or is not a share-based payment arrangement and therefore within the scope of other guidance. ASU 2024-01 provides an illustrative example with multiple fact patterns and also amends certain language in the “Scope” and “Scope Exceptions” sections of Topic 718 to improve its clarity and operability without changing the guidance. Entities can apply the amendments either retrospectively to all prior periods presented in the financial statements or prospectively to profits interest and similar awards granted or modified on or after the date of adoption. If prospective application is elected, an entity must disclose the nature of and reason for the change in accounting principle. ASU 2024-01 is effective January 1, 2025, including interim periods, and is not expected to have a significant impact on our financial statements.

Accounting Standards Update 2024-02 “Codification Improvements” (“ASU 2024-02”) amends the Codification to remove references to various concepts statements and impacts a variety of topics in the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance, but in most instances the references removed are extraneous and not required to understand or apply the guidance. Generally, the amendments in ASU 2024-02 are not intended to result in significant accounting changes for most entities. ASU 2024-02 is effective January 1, 2025 and is not expected to have a significant impact on our 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 in an effort to determine reasonable fair value. Specifically, the Company created three separate fair value adjustments which 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 \$682,000 were incurred during the six months ended June 30, 2023.

Note 3 – Other Comprehensive Loss

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

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
	(in thousands)	
Net unrealized losses on investment securities available for sale	\$ (7,797)	\$ (7,541)
Income tax effect	1,969	1,823
Accumulated other comprehensive loss	<u>\$ (5,828)</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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands, except per share data)			
Net income available to common stockholders	\$ 11,073	\$ 6,799	\$ 23,585	\$ 13,788
Basic weighted average common shares outstanding	25,129	19,333	25,085	19,417
Effect of dilutive common stock equivalents	130	102	144	130
Diluted weighted average common shares outstanding	25,259	19,435	25,229	19,547
Basic earnings per share	\$ 0.44	\$ 0.35	\$ 0.94	\$ 0.71
Diluted earnings per share	\$ 0.44	\$ 0.35	\$ 0.93	\$ 0.71
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	614	656	595	628

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 amount of awards authorized, cumulative granted awards, net of cancellations, and awards available for grant at June 30, 2024.

Awards authorized	3,483,683
Cumulative granted awards, net of cancellations	2,219,400
Awards available for grant	1,264,283

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 June 30, 2024 and 2023 was \$529,000 and \$412,000, respectively, and for the six months ended June 30, 2024 and 2023 was \$1.0 million and \$769,000 respectively.

The Company's stock option activity for the six months ended June 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	(13,429)	8.12		
Expired	(3,791)	13.59		
Outstanding — June 30, 2024	734,229	\$ 10.76	3.1	\$ 1,830,499
Exercisable— June 30, 2024	648,058	\$ 10.34	2.8	\$ 1,830,499

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	76,735	12.56		
Exercised	(2,500)	6.07		
Expired	(30,802)	10.35		
Outstanding — June 30, 2023	<u>757,573</u>	<u>\$ 10.37</u>	<u>5.3</u>	<u>\$ 1,129,290</u>
Exercisable— June 30, 2023	<u>623,434</u>	<u>\$ 9.81</u>	<u>4.5</u>	<u>\$ 1,114,335</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 \$316,000 as of June 30, 2024 which is expected to be recognized over a weighted average period of 1.8 years.

Restricted stock activity under the Company's stock-based compensation plans for the six months June 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	170,636	12.10	
Vested	(116,553)	11.80	
Forfeited	(7,204)	12.32	
Outstanding — June 30, 2024	<u>285,630</u>	<u>\$ 12.27</u>	<u>2.8</u>

	Restricted Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)
Outstanding—December 31, 2022	180,330	\$ 11.19	
Granted	137,366	12.21	
Vested	(82,829)	12.20	
Forfeited	(278)	12.61	
Outstanding — June 30, 2023	<u>234,589</u>	<u>\$ 12.21</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 \$2.9 million as of June 30, 2024 which is expected to be recognized over a weighted average period of 1.9 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 June 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 \$351,000 and \$320,000 at June 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 \$257,000 and \$262,000 at June 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 June 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 June 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:

	June 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
U.S. Government-sponsored agency securities	\$ 14,000	\$ -	\$ (287)	\$ 13,713
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	51,649	-	(5,523)	46,126
Issued by GNMA	28,129	33	(1,754)	26,408
SBA pools	3,108	-	(11)	3,097
Asset-backed securities	560	-	(11)	549
Corporate obligations	7,099	4	(248)	6,855
Total	\$ 104,545	\$ 37	\$ (7,834)	\$ 96,748

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
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

	June 30, 2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Investment securities held to maturity	(in thousands)				
Residential mortgage-backed securities:					
Issued by FNMA and FHLMC	\$ 10,166	\$ -	\$ (1,820)	\$ 8,346	\$ -
Issued by GNMA	465	-	(54)	411	-
Obligations of state and political subdivisions	6,888	12	(360)	6,540	(4)
Corporate obligations	26,500	9	(3,738)	22,771	(202)
Total	\$ 44,019	\$ 21	\$ (5,972)	\$ 38,068	\$ (206)

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Investment securities held to maturity	(in thousands)				
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 June 30, 2024			
Balance—beginning of period	\$ 4	\$ 190	\$ 194
Credit loss expense	-	12	12
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 June 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)		
Six Months Ended June 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)		
Six Months Ended June 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.

	June 30, 2024			
	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
	(in thousands)			
Due within one year	\$ 5,000	\$ 4,965	\$ 659	\$ 653
Due after one year through five years	13,659	13,155	4,869	4,677
Due after five years through ten years	3,000	2,997	27,860	23,981
Due after ten years	3,108	3,097	-	-
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	51,649	46,126	10,166	8,346
Issued by GNMA	28,129	26,408	465	411
Total investment securities	<u>\$ 104,545</u>	<u>\$ 96,748</u>	<u>\$ 44,019</u>	<u>\$ 38,068</u>

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:

	June 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	2	\$ 5,995	\$ (5)	3	\$ 7,718	\$ (282)	5	\$13,713	\$ (287)
Residential mortgage-backed securities:									
Issued by FNMA and FHLMC	7	16,934	(51)	37	29,177	(5,472)	44	46,111	(5,523)
Issued by GNMA	5	10,404	(136)	11	10,456	(1,618)	16	20,860	(1,754)
SBA pools	1	1,485	(2)	1	1,612	(9)	2	3,097	(11)
Asset-backed securities	-	-	-	1	549	(11)	1	549	(11)
Corporate obligations	1	986	(14)	1	2,860	(234)	2	3,846	(248)
Total	16	\$35,804	\$ (208)	54	\$52,372	\$ (7,626)	70	\$88,176	\$ (7,834)

	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.

	June 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	\$ 8,346	\$ (1,820)	16	\$ 8,346	\$ (1,820)
Issued by GNMA	-	-	-	1	411	(54)	1	411	(54)
Obligations of state and political subdivisions	2	649	(24)	11	4,148	(336)	13	4,797	(360)
Corporate obligations	-	-	-	22	3,738	(3,738)	22	3,738	(3,738)
Total	2	\$ 649	\$ (24)	50	\$16,643	\$ (5,948)	52	\$17,292	\$ (5,972)

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)

There were no securities sold during the three or six months ended June 30, 2024. During the six months ended June 30, 2023, the Company sold approximately \$6.8 million in AFS for a realized loss of \$207,000.

Investment securities with a market value of \$4.1 million and \$53.6 million, respectively, were pledged as collateral for municipal deposits and borrowings at June 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:

	June 30, 2024	December 31, 2023
	(in thousands)	
Commercial and industrial	\$ 530,996	\$ 506,849
Commercial real estate:		
Owner-occupied	647,625	612,352
Investor	1,143,954	1,221,702
Construction and development	190,108	186,829
Multi-family	270,238	271,058
Residential real estate:		
Residential mortgage and first lien home equity loans	144,978	156,024
Home equity—second lien loans and revolving lines of credit	46,882	44,698
Consumer and other	26,321	25,343
	3,001,102	3,024,855
Net deferred loan fees and costs	(3,073)	(3,354)
Total loans	\$ 2,998,029	\$ 3,021,501

Total loans include \$2.0 million and \$2.4 million in loans held for sale as of June 30, 2024 and December 31, 2023, respectively. 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 \$13.3 million and \$13.7 million at June 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 June 30, 2024 and gross charge offs for the six months ended June 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 June 30, 2024 and December 31, 2023.

	Loans by Year of Origination at June 30, 2024							Total
	2024	2023	2022	2021	2020	Prior	Revolving	
Commercial and industrial	(in thousands)							
Pass	\$ 31,042	\$ 71,803	\$ 60,592	\$ 45,917	\$ 12,153	\$ 36,528	\$ 263,766	\$ 521,801
Special Mention	-	-	-	-	-	541	2,411	2,952
Substandard	-	-	65	-	-	6,178	-	6,243
Total Commercial and industrial	\$ 31,042	\$ 71,803	\$ 60,657	\$ 45,917	\$ 12,153	\$ 43,247	\$ 266,177	\$ 530,996
YTD gross charge-offs	\$ 277	\$ 170	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 447
Owner-occupied								
Pass	\$ 67,435	\$ 61,727	\$ 125,254	\$ 97,705	\$ 66,130	\$ 193,529	\$ 9,895	\$ 621,675
Special Mention	-	-	-	-	3,248	10,935	4,800	18,983
Substandard	-	-	857	-	-	6,110	-	6,967
Total Owner-occupied	\$ 67,435	\$ 61,727	\$ 126,111	\$ 97,705	\$ 69,378	\$ 210,574	\$ 14,695	\$ 647,625
Investor								
Pass	\$ 27,595	\$ 57,517	\$ 185,252	\$ 186,884	\$ 123,828	\$ 550,607	\$ 9,331	\$ 1,141,014
Special Mention	-	-	-	-	-	509	-	509
Substandard	-	-	-	-	-	2,431	-	2,431
Total Investor	\$ 27,595	\$ 57,517	\$ 185,252	\$ 186,884	\$ 123,828	\$ 553,547	\$ 9,331	\$ 1,143,954
YTD gross charge-offs (1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,494	\$ -	\$ 5,494
Construction and development								
Pass	\$ 16,613	\$ 44,102	\$ 86,328	\$ 10,633	\$ -	\$ 17,893	\$ 14,140	\$ 189,709
Substandard	-	-	-	-	-	399	-	399
Total Construction and development	\$ 16,613	\$ 44,102	\$ 86,328	\$ 10,633	\$ -	\$ 18,292	\$ 14,140	\$ 190,108
Multi-family								
Pass	\$ 1,325	\$ 27,273	\$ 56,444	\$ 59,613	\$ 53,145	\$ 72,229	\$ -	\$ 270,029
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	209	-	209
Total Multi-family	\$ 1,325	\$ 27,273	\$ 56,444	\$ 59,613	\$ 53,145	\$ 72,438	\$ -	\$ 270,238
Residential mortgage and first lien home equity loans								
Pass	\$ 2,990	\$ 7,572	\$ 17,635	\$ 16,893	\$ 23,925	\$ 71,630	\$ 96	\$ 140,741
Substandard	-	357	-	357	-	3,523	-	4,237
Total Residential mortgage and first lien home equity loans	\$ 2,990	\$ 7,929	\$ 17,635	\$ 17,250	\$ 23,925	\$ 75,153	\$ 96	\$ 144,978
Home equity—second lien loans and revolving lines of credit								
Pass	\$ 1,067	\$ 2,298	\$ 2,031	\$ 162	\$ 167	\$ 4,865	\$ 35,889	\$ 46,479
Special Mention	-	-	-	-	-	40	-	40
Substandard	-	-	-	-	-	363	-	363
Total Home equity—second lien loans and revolving lines of credit	\$ 1,067	\$ 2,298	\$ 2,031	\$ 162	\$ 167	\$ 5,268	\$ 35,889	\$ 46,882
Consumer and other								
Pass	\$ 2,221	\$ 3,681	\$ 2,213	\$ 171	\$ 2,313	\$ 1,159	\$ 14,558	\$ 26,316
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	5	-	5
Total Consumer and other	\$ 2,221	\$ 3,681	\$ 2,213	\$ 171	\$ 2,313	\$ 1,164	\$ 14,558	\$ 26,321
YTD gross charge-offs	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6
Total Loans								
Pass	\$ 150,288	\$ 275,973	\$ 535,749	\$ 417,978	\$ 281,661	\$ 948,440	\$ 347,675	\$ 2,957,764
Special Mention	-	-	-	-	3,248	12,025	7,211	22,484
Substandard	-	357	922	357	-	19,218	-	20,854
Total Loans	\$ 150,288	\$ 276,330	\$ 536,671	\$ 418,335	\$ 284,909	\$ 979,683	\$ 354,886	\$ 3,001,102
YTD gross charge-offs (1)	\$ 283	\$ 170	\$ -	\$ -	\$ -	\$ 5,494	\$ -	\$ 5,947

(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:

	June 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	\$ 498	\$ 484	\$ 999	\$ 814	\$ 455	\$ 3,250	\$ 527,746	\$ 530,996
Commercial real estate:								
Owner-occupied	4,360	103	-	4,540	2,427	11,430	636,195	647,625
Investor	1,481	-	-	103	-	1,584	1,142,370	1,143,954
Construction and development	-	-	-	-	134	134	189,974	190,108
Multi-family	-	-	-	209	-	209	270,029	270,238
Residential real estate:								
Residential mortgage and first lien home equity loans	1,377	653	-	1,273	2,245	5,548	139,430	144,978
Home equity—second lien loans and revolving lines of credit	521	88	-	301	-	910	45,972	46,882
Consumer and other	21	1	722	5	-	749	25,572	26,321
Total	\$ 8,258	\$ 1,329	\$ 1,721	\$ 7,245	\$ 5,261	\$ 23,814	\$ 2,977,288	\$ 3,001,102

	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 June 30, 2024 and December 31, 2023 are summarized as follows:

	June 30, 2024		
	Non-Accrual and PCD Non-Accruing Loans		
	With a Related Allowance	Without a Related Allowance	Total
	(in thousands)		
Commercial and industrial	\$ 379	\$ 890	\$ 1,269
Commercial real estate:			
Owner-occupied	712	6,255	6,967
Investor	-	103	103
Construction and development	-	134	134
Multi-family	-	209	209
Residential real estate:			
Residential mortgage and first lien home equity loans	537	2,981	3,518
Home equity—second lien loans and revolving lines of credit	-	301	301
Consumer and other	-	5	5
Total	\$ 1,628	\$ 10,878	\$ 12,506

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 \$880,000 and \$330,000 at June 30, 2024 and December 31, 2023, respectively. The Company had no foreclosed residential real estate property held at June 30, 2024 or December 31, 2023.

Loans totaling \$589.8 million and \$560.1 million at June 30, 2024 and December 31, 2023, respectively, were pledged as collateral for FHLB borrowings.

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

	June 30, 2024	December 31, 2023
	(in thousands)	
Outstanding principal balance	\$ 8,875	\$ 24,864
Carrying amount	5,261	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 first six 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 six months ended June 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 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)

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	Construction and development		Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
			Investor						
Three Months Ended June 30, 2024									
Balance—beginning of period	\$ 14,185	\$ 5,131	\$ 8,907	\$ 2,379	\$ 3,041	\$ 1,286	\$ 954	\$ 513	\$ 36,396
Charge offs	(447)	-	-	-	-	-	-	(2)	(449)
Recoveries	251	12	-	-	10	-	-	-	273
Credit loss expense (benefit)	829	86	(620)	1	(245)	(118)	43	56	32
Balance—end of period	\$ 14,818	\$ 5,229	\$ 8,287	\$ 2,380	\$ 2,806	\$ 1,168	\$ 997	\$ 567	\$ 36,252

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Construction and development		Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
			Investor						
Three Months Ended June 30, 2023									
Balance—beginning of period	\$ 10,714	\$ 4,329	\$ 7,507	\$ 1,905	\$ 3,289	\$ 1,076	\$ 656	\$ 417	29,893
Charge offs	-	-	-	-	-	-	-	-	-
Recoveries	23	85	-	-	-	1	-	-	109
Credit loss expense (benefit)	428	122	32	(127)	53	(1)	24	(82)	449
Balance—end of period	\$ 11,165	\$ 4,536	\$ 7,539	\$ 1,778	\$ 3,342	\$ 1,076	\$ 680	\$ 335	\$ 30,451

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Construction and development		Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
			Investor						
Six Months Ended June 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)	(447)	-	(5,494)	-	-	-	-	(6)	(5,947)
Recoveries	438	24	-	-	16	-	-	-	478
Credit loss expense (benefit)	632	240	(1,106)	(102)	(289)	(142)	71	20	(676)
Balance—end of period	\$ 14,818	\$ 5,229	\$ 8,287	\$ 2,380	\$ 2,806	\$ 1,168	\$ 997	\$ 567	\$ 36,252

(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.

	Commercial real estate					Residential real estate		Consumer and other	Total
	Commercial and industrial	Owner-occupied	Construction and development		Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit		
			Investor						
Six Months Ended June 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
Charge offs	(272)	(72)	-	-	-	-	-	(1)	(345)
Recoveries	42	95	-	-	-	2	-	-	139
Credit loss expense (benefit)	1,383	414	(92)	(143)	68	85	(89)	(89)	1,537
Balance—end of period	\$ 11,165	\$ 4,536	\$ 7,539	\$ 1,778	\$ 3,342	\$ 1,076	\$ 680	\$ 335	\$ 30,451

The decrease in provision compared to the same period in 2023 was primarily due to the Bank's strong and stable asset quality, lack of loan growth and the decrease in past due loans.

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

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, adjusted for 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 \$899,000 and \$968,000 at June 30, 2024 and December 31, 2023, respectively.

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

	Collateral class	June 30, 2024	December 31, 2023
(in thousands)			
Commercial and industrial	Business Assets	\$ 900	\$ 2,264
Commercial real estate:			
Owner-occupied	Commercial real estate	6,967	5,039
Investor	Commercial real estate	103	11,493
Construction and development	Land	134	176
Multi-family	Commercial real estate	209	222
Residential real estate:			
Residential mortgage and first lien home equity loans	Residential real estate	3,518	4,668
Home equity—second lien loans and revolving lines of credit	Residential real estate	301	213
Total		<u>\$ 12,132</u>	<u>\$ 24,075</u>

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.

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 \$525,000 and \$490,000 at June 30, 2024 and December 31, 2023, respectively.

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 six months ended June 30, 2024, all loan modifications were term extensions. For the six months ended June 30, 2023, one commercial and industrial loan with a balance of \$48,000 at June 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 during the year ended December 31, 2023.

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

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

	<u>Term Extension</u>	<u>Total</u>	<u>% of Total by Loan Portfolio Segment</u>
	(in thousands)		
Three and Six Months Ended June 30, 2024			
Commercial and industrial	\$ 935	\$ 935	0.18%
Commercial real estate:			
Owner-occupied	3,627	3,627	0.56%
Investor	266	266	0.02%
Construction and development	134	134	0.07%
Residential real estate:			
Residential mortgage and first lien home equity loans	82	82	0.06%
Total	<u>\$ 5,044</u>	<u>\$ 5,044</u>	<u>0.17%</u>

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

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)					
June 30, 2024						
Commercial and industrial	\$ 357	\$ -	\$ -	\$ -	\$ 578	\$ 935
Commercial real estate:						
Owner-occupied	-	-	-	-	3,627	3,627
Investor	266	-	-	-	-	266
Construction and development	-	-	-	-	134	134
Residential real estate:						
Residential mortgage and first lien home equity loans	-	-	-	-	82	82
Total	<u>\$ 623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,421</u>	<u>\$ 5,044</u>

Note 8 – Borrowings and Subordinated Debentures

The balance in borrowings at June 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 one month to five years. All of the FHLB advances are interest only with a balloon payment due at maturity. FHLB advances and other secured borrowings totaled \$180.0 million and \$7.1 million, respectively, at June 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 5.34% and 4.89% at June 30, 2024 and December 31, 2023, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**Note 8 – Borrowings and Subordinated Debentures (continued)**

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 June 30, 2024, the Company had the ability to borrow an additional \$207.8 million from the FHLB. The Company's borrowing facility at June 30, 2024 included \$786,000 in pledged securities, and \$589.8 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 June 30, 2024 and December 31, 2023 was \$51.4 million and \$72.2 million, respectively, based on qualified investment security collateral. The Company had no outstanding borrowings from the Federal Reserve Bank at June 30, 2024 or December 31, 2023.

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

	<u>June 30, 2024</u> <u>(in thousands)</u>
July 1, 2024 - June 30, 2025	\$ 150,000
July 1, 2025 - June 30, 2026	-
July 1, 2026 - June 30, 2027	30,000
July 1, 2027 - June 30, 2028	-
July 1, 2028 - June 30, 2029	-
Thereafter	7,064
Total	<u>\$ 187,064</u>

The Company also had lines of credit for short-term borrowings with three correspondent banks at June 30, 2024 and December 31, 2023 totaling \$85.0 million and \$80 million, respectively. There were no borrowings on these facilities at either date.

Subordinated debentures totaled \$29.9 million and \$55.3 million at June 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 June 30, 2024, which includes \$102,000 of debt issuance costs, which 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 fair value adjustment of \$409,000 was accelerated at retirement.

Note 9 – Goodwill and Other Intangible Assets

The Company's intangible assets consist of goodwill and core deposit intangibles, 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 these 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, 2023 which is the Company's established annual assessment date and determined that none of the Company's goodwill was impaired as of August 31, 2023. As of June 30, 2024 and December 31, 2023, no triggering events were identified and therefore, the Company did not perform an interim impairment evaluation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 9 – Goodwill and Other Intangible Assets (continued)

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.

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

	Three Months Ended June 30,	
	2024	2023
(in thousands)		
Core deposit intangibles		
Balance—beginning of period	\$ 9,852	\$ 1,027
Amortization	(520)	(62)
Balance—end of the period	<u>\$ 9,332</u>	<u>\$ 965</u>
Loan servicing rights		
Balance—beginning of period	\$ 465	\$ 468
New LSRs	98	73
Amortization	(35)	(44)
Balance—end of the period	<u>\$ 528</u>	<u>\$ 497</u>
Fair value	<u>\$ 532</u>	<u>\$ 524</u>
	Six Months Ended June 30,	
	2024	2023
(in thousands)		
Core deposit intangibles		
Balance—beginning of year	\$ 10,376	\$ 1,093
Amortization	(1,044)	(128)
Balance—end of the period	<u>\$ 9,332</u>	<u>\$ 965</u>
Loan servicing rights		
Balance—beginning of year	\$ 436	\$ 486
New LSRs	159	111
Amortization	(67)	(100)
Balance—end of the period	<u>\$ 528</u>	<u>\$ 497</u>
Fair value	<u>\$ 532</u>	<u>\$ 524</u>

Note 10 – 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.

Note 10 – Income Taxes (continued)

As of June 30, 2024 and December 31, 2023, the Company had net deferred tax assets of \$32.1 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 June 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 June 30, 2024 was \$2.1 million with an effective tax rate of 16.2%, compared to \$2.2 million with an effective tax rate of 24.3% for the second quarter of 2023. 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 an increase in the Company's effective tax rate, however, the increase was offset by a revaluation of the Bank's deferred tax assets as of June 30, 2024. A tax benefit of \$1.1 million was booked as a discrete item in the second quarter of 2024 which reduced the Company's tax expense and effective rate.

The Company recorded a \$4.8 million tax expense for the six months ended June 30, 2024 reflecting an effective tax rate of 16.9% compared to \$4.4 million with an effective tax rate of 24.0% for the same period of 2023. Along with the aforementioned 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 first six 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 11 – 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 June 30, 2024 and December 31, 2023, commitments to extend credit totaled \$441.4 million and \$474.5 million, respectively. At June 30, 2024 and December 31, 2023, the Company had outstanding standby letters of credit of \$20.0 million and \$19.8 million, respectively.

Note 11 – Commitments and Contingencies (continued)

The Company had recorded allowance for credit losses on unfunded commitments of \$525,000 and \$490,000 at June 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 12 – 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.

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.

Note 12 – Fair Value Measurements and Fair Values of Financial Instruments (continued)
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 June 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:

	June 30, 2024			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available for sale:	(in thousands)			
U.S. Government-sponsored agency securities	\$ 13,713	\$ -	\$ 13,713	\$ -
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	46,126	-	46,126	-
Issued by GNMA	26,408	-	26,408	-
SBA pools	3,097	-	3,097	-
Asset-backed securities	549	-	549	-
Corporate obligations	6,855	-	6,855	-
Total securities available for sale	<u>\$ 96,748</u>	<u>\$ -</u>	<u>\$ 96,748</u>	<u>\$ -</u>
Derivative assets	15,270	-	15,270	-
Total	<u>\$ 112,018</u>	<u>\$ -</u>	<u>\$ 112,018</u>	<u>\$ -</u>
Derivative liabilities	<u>\$ 15,270</u>	<u>\$ -</u>	<u>\$ 15,270</u>	<u>\$ -</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)
Investment securities available for sale:	(in thousands)			
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>
Derivative assets	14,365	-	14,365	-
Total	<u>\$ 108,507</u>	<u>\$ 1,985</u>	<u>\$ 106,522</u>	<u>\$ -</u>
Derivative liabilities	<u>\$ 14,365</u>	<u>\$ -</u>	<u>\$ 14,365</u>	<u>\$ -</u>

Note 12 – Fair Value Measurements and Fair Values of Financial Instruments (continued)

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:

	June 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 loans	\$ 899	\$ -	\$ -	\$ 899
Other real estate owned	5,999	-	-	5,999
Total	<u>\$ 6,898</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,898</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 loans	\$ 968	\$ -	\$ -	\$ 968
Total	<u>\$ 968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 968</u>

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

	June 30, 2024			
	Fair Value	Valuation Method	Unobservable Input	Discount ⁽⁴⁾
(dollars in thousands)				
Collateral dependent loans ⁽¹⁾	\$ 899	Fair value of collateral ⁽²⁾	Appraised Value ⁽³⁾	8%
Other real estate owned ⁽¹⁾	5,999	Fair value of collateral ⁽²⁾	Appraised Value ⁽³⁾	34%
Total	<u>\$ 6,898</u>			

Quantitative Information about Level 3 Fair Value Measurements

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

(1) Includes one partially charged-off loan at June 30, 2024 and December 31, 2023. Other real estate owned consists of one commercial real estate property at June 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 is based on qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percentage of the appraised value. As of June 30, 2024 and December 31, 2023 there is only one collateral dependent loan and at June 30, 2024, only one OREO is included in the tables above.

Note 12 – Fair Value Measurements and Fair Values of Financial Instruments (continued)
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:

	June 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)
(in thousands)					
Financial Assets:					
Cash and cash equivalents	\$ 240,760	\$ 240,760	\$ 240,760	\$ -	\$ -
Interest bearing time deposits with banks	1,241	1,223	-	1,223	-
Investment securities available for sale	96,748	96,748	-	96,748	-
Investment securities held to maturity	43,813	38,068	-	38,068	-
Equity securities, at fair value	1,860	1,860	1,860	-	-
Restricted investment in bank stocks	11,594	11,594	-	11,594	-
Other investments	10,796	10,796	-	10,796	-
Net loans	2,961,777	2,869,513	-	-	2,869,513
Accrued interest receivable	14,314	14,314	-	14,314	-
Derivative assets	15,270	15,270	-	15,270	-
Loan servicing rights	528	532	-	-	532
Financial Liabilities:					
Non-maturity deposits	2,273,662	2,273,662	2,273,662	-	-
Time deposits	693,972	687,517	-	687,517	-
Borrowings	187,064	186,756	-	186,756	-
Subordinated debentures	29,898	29,243	-	29,243	-
Accrued interest payable	4,259	4,259	-	4,259	-
Derivative liabilities	15,270	15,270	-	15,270	-

Note 12 – 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 13 – 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 13 – 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 June 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	\$ 145,761	Other Assets	\$ 15,270	\$ 145,761	Other Liabilities	\$ 15,270
Total derivatives not designated as hedging instruments ⁽¹⁾			\$ 15,270			\$ 15,270
Cash collateral ⁽²⁾			14,410			-
Net Derivative Amounts			\$ 860			\$ 15,270

(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.

	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.

As of June 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 \$15.3 million and \$14.4 million, respectively. As of June 30, 2024, the Company received \$14.4 million in cash collateral related to these agreements. The Company did not post any cash collateral as of June 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 June 30, 2024, it could have been required to settle its obligations under the agreements at their termination value of \$15.9 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Note 14 – Leases

As of June 30, 2024, the Company leased 17 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 term 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:

	June 30, 2024	December 31, 2023
Right-of-use assets (in thousands)	9,510	10,226
Lease liabilities (in thousands)	9,908	10,600
Weighted average remaining lease term (in years)	4.48	4.86
Weighted average discount rate	3.50%	3.50%

Future minimum payments for the periods Ended:

	June 30, 2024 (in thousands)	
June 30, 2025	\$	1,360
June 30, 2026		2,547
June 30, 2027		2,230
June 30, 2028		2,120
June 30, 2029		1,588
Thereafter		873
Total Lease Payments	\$	10,718
Less: Imputed interest	\$	(810)
Total lease liabilities	\$	9,908

	Three Months Ended June 30, 2024		2023	
	(in thousands)			
Operating lease cost (cost resulting from lease payments)	\$	687	\$	536
Operating cash flows from operating leases		587		467

	Six Months Ended June 30, 2024		2023	
	(in thousands)			
Operating lease cost (cost resulting from lease payments)	\$	1,359	\$	1,086
Operating cash flows from operating leases		1,168		942

Total lease rental expenses were \$879,000 and \$699,000 for the six months ended June 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 15 – 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 June 30, 2024 and the results of operations for the three and six months ended June 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 June 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 six months ended June 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.

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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 \$3.62 billion, total loans of \$2.99 billion, total deposits of \$2.96 billion and total stockholders' equity of \$392.5 million at June 30, 2024. As of June 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, 2023, 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 advances, and \$25.5 million in subordinated debt, and the acquisition resulted in \$26.3 million in goodwill.

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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, 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, which were written down to \$0 at the acquisition date and 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.

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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, adjusted for the estimated cost to sell.

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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 2023, we elected to perform a qualitative assessment of goodwill, as part of our established annual assessment date of August 31. Based on that assessment, 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, 2023. As of June 30, 2024 and December 31, 2023, no triggering events were identified and 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 June 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 Six Months Ended June 30, 2024 and 2023

Net Income

Net income for the three months ended June 30, 2024 was \$11.1 million compared to \$6.8 million of net income for the same period in 2023. Diluted earnings per share were \$0.44 for the three months ended June 30, 2024 compared to diluted earnings per share of \$0.35 for the same period in 2023. The increase in net income was primarily due to an increase in net interest income of \$8.4 million, or 38.0%, primarily resulting from substantial loan growth related to the Malvern acquisition combined with higher loan yields, which were partially offset by increased interest expense related to the higher cost of deposits and an expanded deposit base. A decrease in credit loss expense also contributed to an increase in net income. The decrease in credit loss expense was primarily due to limited net loan growth during the second quarter of 2024 and stable asset quality metrics. Partially offsetting the increase in net income was losses on the sale of loans and higher non-interest expenses during the three months ended June 30, 2024 compared to the three months ended June 30, 2023. The increase in non-interest expense was largely 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. 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 six months ended June 30, 2024 was \$23.6 million compared to \$13.8 million of net income for the same period in 2023. Diluted earnings per share were \$0.93 for the six months ended June 30, 2024 compared to diluted earnings per share of \$0.71 for the same period in 2023. The increase in net income was primarily due to an increase in net interest income of \$15.9 million, or 35.5%, 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. A decrease in credit loss expense by \$2.2 million also contributed to the increase in net income. The decrease in credit loss expense was primarily due to continued Bank's stable asset quality metrics, lack of organic loan growth and decrease in past due loans during the first six months of 2024. Partially offsetting the increase in net income was losses on the sale of loans and higher non-interest expenses during the six months ended June 30, 2024 compared to the six months ended June 30, 2023. The increase in non-interest expense was also largely 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. 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 June 30, 2024 were 1.23% and 11.52%, respectively, compared with 0.97% and 9.23%, respectively, for the same period in the prior year. Annualized ROAA and ROAE for the six months ended June 30, 2024 were 1.32% and 12.43%, respectively, compared with 1.00% and 9.46% 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.

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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 June 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⁾	\$ 146,289	\$ 1,321	3.63%	\$ 142,209	\$ 996	2.81%
Loans ⁽³⁾	2,997,892	50,763	6.81%	2,397,121	33,748	5.65%
Interest bearing deposits with banks, Federal funds sold and other	224,503	3,101	5.56%	152,623	1,924	5.06%
Restricted investment in bank stocks	11,178	243	8.74%	9,418	157	6.69%
Other investments	12,136	138	4.57%	8,898	103	4.64%
Total interest earning assets ⁽²⁾	3,391,998	55,566	6.59%	2,710,269	36,928	5.47%
Allowance for credit losses	(36,784)			(30,315)		
Non-interest earning assets	263,698			145,259		
Total assets	\$ 3,618,912			\$ 2,825,213		
Interest bearing liabilities						
Interest bearing demand deposits	\$ 591,222	\$ 3,813	2.59%	\$ 338,392	\$ 1,475	1.75%
Money market deposits	1,061,593	10,559	4.00%	811,385	6,804	3.36%
Savings deposits	158,158	619	1.57%	137,830	366	1.07%
Time deposits	678,197	7,395	4.39%	570,850	4,046	2.84%
Total interest bearing deposits	2,489,170	22,386	3.62%	1,858,457	12,691	2.74%
Borrowings	171,533	2,193	5.14%	151,810	1,661	4.39%
Subordinated debentures	29,880	440	5.89%	29,769	441	5.93%
Total interest bearing liabilities	2,690,583	25,019	3.74%	2,040,036	14,793	2.91%
Non-interest bearing deposits	497,205			462,692		
Other liabilities	44,480			26,925		
Stockholders' equity	386,644			295,560		
Total liabilities and stockholders' equity	\$ 3,618,912			\$ 2,825,213		
Net interest income/interest rate spread ⁽²⁾		30,547	2.85%		22,135	2.56%
Net interest margin ⁽²⁾⁽⁴⁾			3.62%			3.28%
Tax equivalent adjustment ⁽²⁾		(7)			(7)	
Net interest income		\$ 30,540			\$ 22,128	

(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.

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	Six Months Ended June 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⁾	\$ 146,719	\$ 2,549	3.49%	\$ 147,953	\$ 2,064	2.81%
Loans ⁽³⁾	2,988,707	100,082	6.73%	2,380,336	65,448	5.54%
Interest bearing deposits with banks,						
Federal funds sold and other	213,831	5,811	5.46%	124,503	3,008	4.87%
Restricted investment in bank stocks	10,800	442	8.23%	8,841	258	5.88%
Other investments	12,003	254	4.26%	8,770	170	3.91%
Total interest earning assets ⁽²⁾	3,372,060	109,138	6.51%	2,670,403	70,948	5.36%
Allowance for credit losses	(37,196)			(29,826)		
Non-interest earning assets	262,465			144,867		
Total assets	\$ 3,597,329			\$ 2,785,444		
Interest bearing liabilities						
Interest bearing demand deposits	\$ 605,081	\$ 7,479	2.49%	\$ 328,870	\$ 2,454	1.50%
Money market deposits	1,038,250	20,348	3.94%	784,089	11,791	3.03%
Savings deposits	160,135	1,193	1.50%	145,691	712	0.99%
Time deposits	674,872	14,152	4.22%	552,028	7,147	2.61%
Total interest bearing deposits	2,478,338	43,172	3.50%	1,810,678	22,104	2.46%
Borrowings	169,337	4,309	5.12%	141,567	3,025	4.31%
Subordinated debentures	36,175	784	4.33%	29,756	881	5.92%
Total interest bearing liabilities	2,683,850	48,265	3.62%	1,982,001	26,010	2.65%
Non-interest bearing deposits	489,353			481,237		
Other liabilities	42,534			28,330		
Stockholders' equity	381,592			293,876		
Total liabilities and stockholders' equity	\$ 3,597,329			\$ 2,785,444		
Net interest income/interest rate spread ⁽²⁾		60,873	2.89%		44,938	2.71%
Net interest margin ⁽²⁾⁽⁴⁾			3.63%			3.39%
Tax equivalent adjustment ⁽²⁾		(15)			(15)	
Net interest income		\$ 60,858			\$ 44,923	

(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 June 30, 2024 versus 2023 Increase (Decrease) Due to Change in ⁽¹⁾		
	Average Volume	Average Rate	Net Change
	(in thousands)		
Interest income			
Investment securities ⁽²⁾	\$ 29	\$ 296	\$ 325
Loans	9,406	7,609	17,015
Interest bearing deposits with banks, Federal funds sold and other	978	199	1,177
Restricted investment in bank stocks	33	53	86
Other investments	37	(2)	35
Total interest income ⁽²⁾	10,483	8,155	18,638
Interest expense			
Interest bearing demand deposits	1,424	914	2,338
Money market deposits	2,342	1,413	3,755
Savings deposits	60	193	253
Time deposits	866	2,483	3,349
Total interest bearing deposits	4,692	5,003	9,695
Borrowings	232	300	532
Subordinated debentures	2	(3)	(1)
Total interest expense	4,926	5,300	10,226
Net interest income ⁽²⁾	\$ 5,557	\$ 2,855	\$ 8,412

(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%.

	Six Months Ended June 30, 2024 versus 2023 Increase (Decrease) Due to Change in ⁽¹⁾		
	Average Volume	Average Rate	Net Change
	(in thousands)		
Interest income			
Investment securities ⁽²⁾	\$ (17)	\$ 502	\$ 485
Loans	18,695	15,939	34,634
Interest bearing deposits with banks, Federal funds sold and other	2,388	415	2,803
Restricted investment in bank stocks	65	119	184
Other investments	67	17	84
Total interest income ⁽²⁾	21,198	16,992	38,190
Interest expense			
Interest bearing demand deposits	2,820	2,205	5,025
Money market deposits	4,421	4,136	8,557
Savings deposits	76	405	481
Time deposits	1,852	5,153	7,005
Total interest bearing deposits	9,169	11,899	21,068
Borrowings	651	633	1,284
Subordinated debentures	167	(264)	(97)
Total interest expense	9,987	12,268	22,255
Net interest income ⁽²⁾	\$ 11,211	\$ 4,724	\$ 15,935

(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 3.62% for the three months ended June 30, 2024, compared to 3.28% 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 \$3.6 million during the second quarter of 2024 and \$7.8 million during the six months ended June 30, 2024 compared to \$23,000 and \$48,000, respectively for the three and six months ended June 30, 2023. The increase was due to the Malvern acquisition 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. The margin declined slightly during the quarter ended June 30, 2024 compared to the first quarter of 2024, primarily driven by increased deposit costs which were mostly offset by increased yields on loans in the second quarter of 2024. We expect some minimal deposit pricing increases for the remainder of 2024 as we still have some deposits repricing higher at maturity and the competitive environment is still difficult, however, we expect yields on loans to continue to move higher as well.

Net interest income on a tax equivalent basis increased \$8.4 million, or 38.0%, to \$30.5 million for the three months ended June 30, 2024, compared to \$22.1 million for the same period in 2023. The increase was due to an increase of \$18.6 million in interest income in the second quarter of 2024 which was partially offset by a \$10.2 million increase in interest expense for the same period. Interest income on loans increased \$17.0 million, or 50.4%, to \$50.8 million for the three months ended June 30, 2024, compared to \$33.7 million for the same period of 2023. Interest income on deposits with banks and federal funds sold and other interest earning assets increased \$1.3 million, or 59.4%, to \$3.5 million for the three months ended June 30, 2024, compared to \$2.2 million for the same period of 2023. Interest income on investment securities increased \$325,000, or 32.9%, to \$1.3 million for the three months ended June 30, 2024, compared to \$989,000 for the same period in 2023. Interest expense on deposits increased by \$9.7 million, or 76.4%, to \$22.4 million for the three months ended on June 30, 2024, compared to \$12.7 million for the same period of 2023. Interest expense on borrowings increased by \$532,000, or 32.0%, to \$2.2 million for the three months ended on June 30, 2024, compared to \$1.7 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 current interest rate environment.

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Net interest income on a tax equivalent basis increased \$15.9 million, or 35.5%, to \$60.9 million for the six months ended June 30, 2024, compared to \$44.9 million for the same period in 2023. The increase in net interest income was due to an increase of \$38.2 million in interest income compared to an increase of \$22.3 million in interest expense for six months ended June 30, 2024. Interest income on loans increased \$34.6 million, or 52.9%, to \$100.1 million for the six months ended June 30, 2024, compared to \$65.4 million for the same period of 2023. Interest income on deposits with banks and federal funds sold and other interest earning assets increased \$3.1 million, or 89.4%, to \$6.5 million for the six months ended June 30, 2024, compared to \$3.4 million for the same period of 2023. Interest income on investment securities increased \$485,000, or 23.7%, to \$2.5 million for the six months ended June 30, 2024, compared to \$2.0 million for the same period in 2023. Interest expense on deposits increased by \$21.1 million, or 95.3%, to \$43.2 million for the six months ended on June 30, 2024, compared to \$22.1 million for the same period of 2023. Interest expense on borrowings increased by \$1.3 million, or 42.4%, to \$4.3 million for the six months ended on June 30, 2024, compared to \$3.0 million for the same period of 2023. Increases in both interest income and interest expense for the comparable six month periods were also primarily a result of growth from the Malvern acquisition, as well as the current interest rate environment.

The primary contributor to the increase in interest income was an increase in the average balance of loans for three months ended June 30, 2024, which increased to \$3.00 billion from \$2.40 billion at June 30, 2023, coupled with an increase of 116 basis points in the average rate on loans. This increase was partially offset by an increase in interest expense on deposits for the three months ended June 30, 2024 compared to the same prior year period, with an increase in average interest bearing deposits of \$630.7 million and an 88 basis point increase in the average rate on interest bearing deposits.

The increase in loan interest income for the six months ended June 30, 2024 compared to the same period in 2023 was primarily due to the increase in average loans of \$608.4 million coupled with an increase of 119 basis points in the average rate on loans, partially offset by an increase in interest expense on interest bearing deposits of \$21.1 million for the same period ended June 30, 2024. Average interest bearing deposits grew to \$2.48 billion an increase of \$667.7 million with a 104 basis points increase in the average rate on interest bearing deposits.

Average investment securities were \$146.3 million for the three months ended June 30, 2024 compared to \$142.2 million for the same period in 2023. The average tax equivalent yield on investment securities for the three months ended June 30, 2024 increased 82 basis points to 3.63% compared to 2.81% 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 modest increase of \$4.1 million in the average balance of investments securities, higher investment yield resulted in increasing interest income on investment securities on a tax equivalent basis of \$325,000, or 32.6%, for the three months ended June 30, 2024 compared to the same period in 2023.

Average investment securities were \$146.7 million for the six months ended June 30, 2024 compared to \$148.0 million for the same period in 2023. The average tax equivalent yield on investment securities for the six months ended June 30, 2024 increased 68 basis points to 3.49% compared to 2.81% for the same period in 2023. Though the average balance of investments securities declined by \$1.2 million compared to the prior year quarter, higher investment yield resulted in interest income on investment securities on a tax equivalent basis increasing \$485,000, or 23.5%, for the six months ended June 30, 2024 compared to the same period in 2023.

Average deposits with banks and federal funds were \$224.5 million for the three months ended June 30, 2024 compared to \$152.6 million for the same period in 2023, an increase of 47.1%. The average yield on deposits with banks and federal funds for the three months ended June 30, 2024 increased 50 basis points to 5.56% compared to 5.06% 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 61.2% for the three months ended June 30, 2024 compared to the same period in 2023.

Average deposits with banks and federal funds were \$213.8 million for the six months ended June 30, 2024 compared to \$124.5 million for the same period in 2023, an increase of 71.8%. The average yield on deposits with banks and federal funds for the six months ended June 30, 2024 increased 59 basis points to 5.46% compared to 4.87% 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 \$2.8 million, or 93.2% for the six months ended June 30, 2024 compared to the same period in 2023.

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The average balance of interest bearing liabilities increased \$650.5 million, or 31.9%, to \$2.69 billion for the three months ended June 30, 2024, compared to \$2.04 billion for the same period in 2023. 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 83 basis points to 3.74% for the three months ended June 30, 2024 compared to 2.91% for the same period in 2023. Interest expense on average interest bearing liabilities increased \$10.2 million for the three months ended June 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 \$630.7 million while average rates increased 88 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, which represented 80.1% of deposits at June 30, 2023, increased to 83.2% at June 30, 2024. Our total cost of deposits increased to 3.01% for the quarter ended June 30, 2024 from 2.19% during the quarter ended June 30, 2023. Non-interest bearing deposits as a percentage of deposits decreased to 16.8% at June 30, 2024 compared to 19.9% at June 30, 2023.

Average interest bearing liabilities increased by \$701.8 million to \$2.68 billion from \$1.98 billion for the six months ended June 30, 2023. The increase was due to average balance increases in all categories of deposits, an increase in average borrowings and subordinated debentures. Average subordinated debentures include \$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 97 basis points to 3.62% for the six months ended June 30, 2024 compared to 2.65% for the same period in 2023. Interest expense on average interest bearing liabilities increased \$22.3 million for the six months ended June 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 2.93% for the six months ended June 30, 2024 from 1.94% during the same period ended June 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 has remained at 5.50% since July 2023. We have continued to operate in a difficult interest rate environment as deposit costs continue 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 the margin to be relatively stable through the end of 2024 and we have positioned our balance sheet to be able to react quickly to any changes in the interest rate environment or other market conditions.

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. While we still have some deposits repricing higher at maturity and the competitive environment still being difficult, we expect yields on loans to continue to move higher and maintain a stable margin.

Credit Loss Expense (Benefit)

The Company recorded a minimal credit loss expense totaling \$63,000 during the three months ended June 30, 2024, compared to a credit loss expense totaling \$496,000 for the same period of the previous year. A credit loss (benefit) of (\$635,000) was recorded for the six months ended June 30, 2024 compared to an expense of \$1.6 million for the same period of 2023. The minimal expense during the first quarter of 2024 and the benefit for the first six months of 2024 were primarily due to the low level of loan growth during the three and six months ended June 30, 2024 coupled with limited charge-offs and strong loan credit metrics. The credit loss expense for the three and six-month periods of 2023 were commensurate with organic loan growth during those periods. Our ratio of nonperforming loans to total loans was 0.47% at June 30, 2024 compared to 0.83% at December 31, 2023 and 0.42% at June 30, 2023. The allowance for credit losses to total loans ratio was 1.21% at June 30, 2024 compared to 1.40% at December 31, 2023 and 1.25% at June 30, 2023. The allowance for loan losses to nonperforming loans ratio was 254.81% at June 30, 2024 compared to 169.66% at December 31, 2023 and 379.50% at June 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 bank-owned life insurance (“BOLI”), gains on sale of loans, gains on recovery of acquired loans and fees for other banking services. For the three months ended June 30, 2024 and 2023, non-interest income represented 2.2% and 4.9% 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.

The Company recorded non-interest income of \$689,000, compared to \$1.1 million during the same period in 2023. The decline in non-interest income was primarily related to \$1.2 million in losses realized on the sale of \$23.8 million of acquired commercial real estate loans during the quarter ended June 30, 2024. Partially offsetting these losses was \$303,000 in gains on sale of small business administration loans during the second quarter of 2024. The sale of these non-core commercial real estate loans continued our strategy of optimizing our balance sheet and helped to further reduce our Investor Commercial Real Estate concentration. Excluding the \$1.2 million loss, non-interest income grew \$764,000 from the prior year quarter, reflecting increased bank owned life insurance (BOLI) income and increased customer activity related to the Malvern acquisition. Contributing to the non-interest income increase, was an increase of \$117,000 from service fees on deposit accounts, primarily from the additional Malvern customers; as well as an increase in gains on sale of SBA loans, gains on recovery of acquired loans and other non-interest income of \$303,000, \$42,000 and \$142,000, respectively. The Company did not sell any securities for the three months ended June 30, 2024 or 2023.

Non-interest income totaled \$2.7 million for the six months ended June 30, 2024, compared to \$2.1 million for the same period in 2023, an increase of \$561,000. The increase was primarily driven by a \$647,000 increase in bank-owned life insurance (BOLI) income, of which \$187,000 was a one-time death benefit in the first quarter of 2024, as we benefited from the BOLI policies acquired in the Malvern acquisition. Also contributing to the non-interest income increase, was an increase of \$233,000 from service fees on deposit accounts, primarily from the additional Malvern customers; as well as an increase in gains on sale of SBA loans, gains on recovery of acquired loans and other non-interest income of \$532,000, \$103,000 and \$241,000, respectively. Partially offsetting these increases was the aforementioned \$1.2 million loss on the sale of certain acquired commercial real estate loans. The Company did not sell any securities for the six months ended June 30, 2024, and a loss of \$207,000 was recorded on the sale of investments for the same period in 2023.

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 June 30, 2024, non-interest expense totaled \$18.0 million, which was \$4.2 million, or 30.03%, higher than the same prior year period. The higher non-interest expense was largely due to the increased operating expenses associated with the Malvern acquisition, including increases of \$1.8 million in salaries and employee benefits due to merit increases and a larger employee base, \$469,000 in occupancy and equipment due to an expanded branch network, \$331,000 in other professional fees primarily related to increases in information technology project consulting fees and increases in audit and tax services, and \$1.0 million in other expense. The increase in other expense was primarily due to an increase in core deposit intangible amortization, higher Pennsylvania shares tax and slight increases in miscellaneous other expenses based on the growth of the Bank. This was partially offset by the absence of merger-related expenses for the second quarter of 2024, compared to \$221,000 recorded during the second quarter of 2023.

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Six months ended June 30, 2024 non-interest expense totaled \$35.8 million compared to \$27.3 million for the six months ended June 30, 2023. The largest component of non-interest expense is salaries and employee benefits. Salaries and employee benefits expense totaled \$20.0 million for the six months ended June 30, 2024 compared to \$16.0 million for the same period in 2023, an increase of \$4.0 million, or 25.1%, 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 294 at June 30, 2024 compared to 286 at December 31, 2023 and 261 at June 30, 2023. Other professional fees increased \$436,000 for the six-month period compared to same period in 2023 primarily due to the same reasons discussed above for the three-month period ended June 30, 2024. Merger-related expenses totaled \$682,000 for the six months ended June 30, 2023. There were no merger-related expenses in the first six months of 2024.

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 \$469,000 and \$916,000, or 29.1% and 28.7%, respectively, for the three and six months ended June 30, 2024 compared to the prior year period. The increase was mainly related to the expansion from the Malvern acquisition.

Regulatory fees increased \$124,000 and \$492,000, or 24.0% or 65.6%, for the three and six months ended June 30, 2024 respectively, compared to the prior year period. The increase was primarily due to asset growth from the Malvern acquisition.

Other expense rose \$1.0 million and \$2.1 million for the three and six months ended June 30, 2024 compared to the same period in 2023. Other expense includes 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 due to our significant growth, primarily as a result of the Malvern acquisition.

Our efficiency ratio for the three months ended June 30, 2024 was 55.9% compared to 58.7% for the same period last year. Our efficiency ratio for the six months ended June 30, 2024 was 55.7% compared to 56.7% 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 and even as we have seen 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.

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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(dollars in thousands)			
Non-interest expense	\$ 17,953	\$ 13,775	\$ 35,763	\$ 27,278
Less: Merger-related expenses	-	221	-	682
Adjusted non-interest expense (numerator)	\$ 17,953	\$ 13,554	\$ 35,763	\$ 26,596
Net interest income	\$ 30,540	\$ 22,128	\$ 60,858	\$ 44,923
Non-interest income	689	1,128	2,653	2,092
Total net revenue	31,229	23,256	63,511	47,015
Add: Loss on sale of investment securities, net	-	-	-	207
Add (subtract): Losses (gains) on sale loans, net	900	(170)	671	(311)
Adjusted total revenue (denominator)	\$ 32,129	\$ 23,086	\$ 64,182	\$ 46,911
Efficiency ratio	55.88%	58.71%	55.72%	56.69%

Income Tax Expense

Income tax expense for the three months ended June 30, 2024 was \$2.1 million with an effective tax rate of 16.2%, compared to \$2.2 million with an effective tax rate of 24.3% for the second quarter of 2023. 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.

The Company recorded a \$4.8 million tax expense for the six months ended June 30, 2024 reflecting an effective tax rate of 16.9% compared to \$4.4 million with an effective tax rate of 24.0% for the same period of 2023. Along with the aforementioned 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 expect our effective tax rate to be in-line with historic levels between 24-25% going forward.

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 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.

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 a 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 June 30, 2024 and December 31, 2023

Assets

Total assets increased \$6.4 million or 0.2% from \$3.61 billion at December 31, 2023 to \$3.62 billion at June 30, 2024, primarily reflecting increases in cash and cash equivalents and other real estate owned, partially offset by a decrease in net loans.

Loans

Our loan portfolio consists primarily of commercial real estate and commercial and industrial loans. Loans, net of deferred fees and costs, decreased from \$3.02 billion at December 31, 2023 to \$3.00 billion at June 30, 2024, a net decrease of \$23.5 million, or 0.8%.

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

	June 30, 2024	December 31, 2023
	(in thousands)	
Commercial and industrial	\$ 530,996	\$ 506,849
Commercial real estate:		
Owner-occupied	647,625	612,352
Investor	1,143,954	1,221,702
Construction and development	190,108	186,829
Multi-family	270,238	271,058
Total commercial real estate	2,251,925	2,291,941
Residential real estate:		
Residential mortgage and first lien home equity loans	144,978	156,024
Home equity—second lien loans and revolving lines of credit	46,882	44,698
Total residential real estate	191,860	200,722
Consumer and other	26,321	25,343
	3,001,102	3,024,855
Net deferred loan fees and costs	(3,073)	(3,354)
Total loans	\$ 2,998,029	\$ 3,021,501

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At June 30, 2024, total commercial loans represented 92.8% 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 \$24.1 million, or 4.8%, to \$531.0 million at June 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 decreased \$40.0 million, or 1.8%, to \$2.25 billion at June 30, 2024 compared to \$2.29 billion at December 31, 2023. Investor commercial real estate and multi-family loans decreased a total of \$77.7 million during the first six months of 2024. This decrease was partially offset by growth in owner-occupied real estate loans by \$35.3 million and construction and development loans by \$3.3 million during the first six months of 2024. Multi-family and owner-occupied loans represented 9.0% and 21.6% of total loans, respectively, at June 30, 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 \$191.9 million at June 30, 2024 compared to \$200.7 million at December 31, 2023. Home equity-second lien loans and revolving lines of credit increased \$2.2 million from December 31, 2023 to June 30, 2024.

Consumer and other loans totaled \$26.3 million and \$25.3 million at June 30, 2024 and December 31, 2023, respectively. Consumer and other loans represented 0.9% and 0.8% of total loans at June 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:

	June 30, 2024	December 31, 2023
	(dollars in thousands)	
Nonaccrual loans:		
Commercial and industrial	\$ 814	\$ 2,567
Commercial real estate:		
Owner-occupied	4,540	2,541
Investor	103	-
Construction and development	-	-
Multi-family	209	222
Residential real estate:		
Residential mortgage and first lien home equity loans	1,273	2,286
Home equity—second lien loans and revolving lines of credit	301	213
Consumer and other	5	6
Total nonaccrual loans	7,245	7,835
Total PCD Non-accruing loans	5,261	17,029
Loans past due 90 days or more and still accruing	1,721	125
Total nonperforming loans	14,227	24,989
Other real estate owned, net	5,999	-
Total nonperforming assets	\$ 20,226	\$ 24,989
Nonaccrual loans to total loans	0.24%	0.26%
Nonperforming loans to total loans	0.47%	0.83%
Nonperforming assets to total assets	0.56%	0.69%

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Nonperforming assets as a percentage of total assets were 0.56% at June 30, 2024 and 0.69% at December 31, 2023. Nonperforming loans as a percentage of total loans were 0.47% at June 30, 2024 and 0.83% at December 31, 2023. PCD non-accruing loans totaled \$5.3 million at June 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 June 30, 2024, our ACL included an ACL on loans of \$36.3 million, an ACL on HTM securities of \$206,000 and an ACL on off-balance sheet commitments of \$525,000. 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 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 which possess similar risk characteristics. The pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors. The evaluation process for determining the adequacy of the allowance for credit losses takes place quarterly.

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

	<u>June 30, 2024</u>		<u>December 31, 2023</u>	
	(dollars in thousands)			
Allowance for credit losses on loans	\$	36,252	\$	42,397
Total loans, net of deferred fees and costs	\$	2,998,029	\$	3,021,501
Nonperforming loans	\$	14,227	\$	24,989
Allowance for credit losses to total loans		1.21%		1.40%
Allowance for credit losses to nonperforming loans		254.81%		169.66%
Nonperforming loans to total loans		0.47%		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 June 30, 2024											
ACL	\$ 14,818	\$ 5,229	\$ 8,287	\$ 2,380	\$ 2,806	\$ 1,168	\$ 997	\$ 567	\$ 36,252		
% of total ACL	40.87%	14.43%	22.86%	6.57%	7.74%	3.22%	2.75%	1.56%	100.00%		
% of total loans	0.49%	0.17%	0.28%	0.08%	0.09%	0.04%	0.03%	0.03%	1.21%		
Loan portfolio balance	\$ 530,996	\$ 647,625	\$ 1,143,954	\$ 190,108	\$ 270,238	\$ 144,978	\$ 46,882	\$ 26,321	\$ 3,001,102		
% of total loans	17.69%	21.58%	38.12%	6.34%	9.00%	4.83%	1.56%	0.88%	100.00%		
Six months ended June 30, 2024											
Loan charge offs (1)	\$ 447	\$ -	\$ 5,494	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 5,947		
Loan recoveries	438	24	-	-	16	-	-	-	478		
Net charge offs (recoveries)	\$ 9	\$ (24)	\$ 5,494	\$ -	\$ (16)	\$ -	\$ -	\$ 6	\$ 5,469		
Average loan amounts outstanding	\$ 509,983	\$ 617,114	\$ 1,173,626	\$ 186,997	\$ 276,596	\$ 152,496	\$ 45,539	\$ 26,356	\$ 2,988,707		
Annualized net charge offs (recoveries) during the period to average loans outstanding	0.00%	(0.01%)	0.94%	-	(0.01%)	-	-	0.05%	0.37%		

(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.

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	Commercial real estate					Residential real estate			Total
	Commercial and industrial	Owner-occupied	Construction and development		Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	
			Investor						
(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%

	Commercial real estate					Residential real estate			Total
	Commercial and industrial	Owner-occupied	Construction and development		Multi-family	Residential mortgage and first lien home equity loans	Home equity-second lien loans and revolving lines of credit	Consumer and other	
			Investor						
(in thousands)									
As of June 30, 2023									
ACL	\$ 11,165	\$ 4,536	\$ 7,539	\$ 1,778	\$ 3,342	\$ 1,076	\$ 680	\$ 335	\$ 30,451
% of total ACL	36.66%	14.90%	24.76%	5.84%	10.98%	3.53%	2.23%	1.10%	100.00%
% of total loans	0.46%	0.19%	0.31%	0.07%	0.14%	0.04%	0.03%	0.01%	1.25%
Loan portfolio balance	\$ 419,836	\$ 560,878	\$ 965,339	\$ 136,615	\$ 223,784	\$ 91,260	\$ 29,983	\$ 12,514	\$ 2,440,209
% of total loans	17.21%	22.98%	39.56%	5.60%	9.17%	3.74%	1.23%	0.51%	100.00%
Six months ended June 30, 2023									
Loan charge offs	\$ 272	\$ 72	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 345
Loan recoveries	42	95	-	-	-	2	-	-	139
Net (recoveries) charge offs	\$ 230	\$ (23)	\$ -	\$ -	\$ -	\$ (2)	\$ -	\$ 1	\$ 206
Average loan amounts outstanding	\$ 390,612	\$ 537,864	\$ 949,324	\$ 139,961	\$ 221,187	\$ 93,166	\$ 30,747	\$ 17,475	\$ 2,380,336
Annualized net (recoveries) charge offs during the period to average loans outstanding	0.12%	(0.01%)	-	-	-	-	-	0.01%	0.02%

The allowance for credit losses on loans was \$36.3 million at June 30, 2024, compared to \$42.4 million at December 31, 2023. The credit loss benefit for loans was \$667,000 for the first six months of 2024 compared to a credit loss expense of \$1.5 million during the same period of 2023. During the first six months of 2024 we recorded \$5.5 million in net charge offs compared to net charge offs of \$206,000 during the first six 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 June 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 June 30, 2024 remains adequate in relation to losses inherent in the loan portfolio.

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For the six months ended on June 30, 2024 and June 30, 2023, annualized net charge offs (recoveries) as a percentage of loans were 0.37% and 0.02%, respectively. Net charge offs and recoveries were \$5.5 million for the six months ended June 30, 2024, excluding the aforementioned \$5.5 million PCD loan charge-off, we had net recoveries of \$26,000 for the six months ended June 30, 2024. Our allowance for credit losses as a percentage of non-performing loans was 254.81% at June 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 3.9% of total assets at June 30, 2024 and December 31, 2023. Investment securities increased slightly to \$142.4 million at June 30, 2024 compared to \$140.1 million at December 31, 2023, an increase of \$2.3 million, or 1.7%. During the quarter ended June 30, 2024 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 the market conditions.

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

	June 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	\$ 5,000	\$ 4,965	2.34%	\$ 659	\$ 653	4.05%
Due after one year through five years	13,659	13,155	4.22%	4,869	4,677	6.04%
Due after five years through ten years	3,000	2,997	5.88%	27,860	23,981	4.52%
Due after ten years	3,108	3,097	6.20%	-	-	-
Residential mortgage-backed securities:						
Issued by FNMA and FHLMC	51,649	46,126	3.18%	10,166	8,346	2.47%
Issued by GNMA	28,129	26,408	4.38%	465	411	3.50%
Total	\$ 104,545	\$ 96,748	3.77%	\$ 44,019	\$ 38,068	4.13%

(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:

	June 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	\$ 14,000	\$ -	\$ (287)	\$ 13,713
Residential mortgage-backed securities:				
Issued by FNMA and FHLMC	51,649	-	(5,523)	46,126
Issued by GNMA	28,129	33	(1,754)	26,408
SBA pools	3,108	-	(11)	3,097
Asset-backed securities	560	-	(11)	549
Corporate obligations	7,099	4	(248)	6,855
Total	\$ 104,545	\$ 37	\$ (7,834)	\$ 96,748

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	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale	(in thousands)			
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

	June 30, 2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Investment securities held to maturity	(in thousands)				
Residential mortgage-backed securities:					
Issued by FNMA and FHLMC	\$ 10,166	\$ -	\$ (1,820)	\$ 8,346	\$ -
Issued by GNMA	465	-	(54)	411	-
Obligations of state and political subdivisions	6,888	12	(360)	6,540	(4)
Corporate obligations	26,500	9	(3,738)	22,771	(202)
Total	\$ 44,019	\$ 21	\$ (5,972)	\$ 38,068	\$ (206)

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Investment securities held to maturity	(in thousands)				
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)

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 June 30, 2024 or upon implementation of CECL on January 1, 2023. As of June 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 June 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.

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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.

Investment securities with unrealized losses are evaluated quarterly to determine whether there were any credit losses. At June 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 June 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 June 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 June 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 June 30, 2024			
Balance—beginning of period	\$ 4	\$ 190	\$ 194
Credit loss expense	-	12	\$ 12
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)		
Six Months Ended June 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 June 30, 2024 was \$96.7 million, an increase of \$2.6 million from \$94.1 million at December 31, 2023. The slight increase is from new purchases of \$15.5 million in MBS portfolio during first quarter of 2024, which were mostly offset by \$7.5 million in maturities and \$5.0 million in principal paydowns from our residential mortgage-backed securities portfolio. As of June 30, 2024, the AFS portfolio had net unrealized losses of \$7.8 million compared to \$7.5 million at December 31, 2023.

HTM investment securities totaled \$43.8 million at June 30, 2024, compared to \$44.1 million at December 31, 2023, a decrease of \$246,000 or 0.6%. The decrease in HTM securities was primarily due to a call of a \$1.5 million corporate bond, \$310,000 due to maturity, and \$622,000 in principal paydowns from our residential mortgage-backed securities portfolio, partially offset by \$2.2 million purchases during the first six months of 2024.

Mortgage-Backed Securities

We held \$79.8 million and \$10.6 million (amortized cost) of MBS at June 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 with 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 \$5.6 million for the six months ended June 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 June 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 \$10.8 million and \$9.8 million at June 30, 2024 and December 31, 2023, respectively. Other investments consist primarily of an investment in a SBA Loan Fund with a balance of \$7.2 million and \$7.0 million at June 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 \$374,000 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 remained stable at \$2.97 billion at June 30, 2024 and December 31, 2023. Non-interest-bearing demand deposits decreased \$2.0 million, or 0.4% and, interest bearing deposits increased \$2.1 million, or 0.1%. Money market and savings deposits, and time deposits increased by \$27.9 million and \$28.7 million, or 2.4% and 4.3%. There was a slight shift of customers moving into higher-yielding interest-bearing deposits and some attrition from customers seeking higher rate alternative options. We were pleased to maintain our overall level of deposit balances while market conditions continue to be challenging. While deposit costs increased, we believe that maintaining deposit levels to assist in paying off higher cost subordinated debentures and borrowings while maintaining strong liquidity levels was a net positive during the quarter. Heightened industry-wide pricing competition also tempered deposit growth.

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	<u>June 30, 2024</u>	<u>December 31, 2023</u>
	(in thousands)	
Non-interest bearing demand deposits	\$ 499,765	\$ 501,763
Interest bearing demand deposits	574,515	629,110
Money market deposits	1,045,821	1,011,591
Savings deposits	153,561	159,849
Time deposits	693,972	665,256
Total deposits	<u>\$ 2,967,634</u>	<u>\$ 2,967,569</u>

Borrowings

At June 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 totaled \$180.0 million and \$167.4 million at June 30, 2024 and December 31, 2023, respectively, which represented 5.0% 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 June 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, and therefore these participations sold are accounted for as secured borrowings. These secured borrowings totaled \$7.1 million and \$11.7 million at June 30, 2024 and December 31, 2023, respectively.

Subordinated Debentures

At June 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 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 flow and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

Total cash and cash equivalents increased by \$12.8 million during the six months ended June 30, 2024 to \$240.8 million. The Bank maintained its stable liquidity position despite utilizing cash to retire \$25.5 million in subordinated debenture during the first six 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, a comprehensive liquidity analysis is reviewed by the Asset Liability Committee and Board of Directors. 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 June 30, 2024, our liquid assets (cash and cash equivalents and eligible unpledged securities) totaled \$320.6 million, or 8.9% of total assets, compared to \$294.3 million, or 8.2% of total assets, at December 31, 2023.

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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 June 30, 2024 we had the ability to borrow \$207.8 million. At June 30, 2024, we had additional borrowing capacity of \$51.4 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 June 30, 2024, our outstanding commitments to extend credit totaled \$441.4 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 \$392.5 million at June 30, 2024, an increase of \$21.6 million, or 5.8%. The increase was primarily the result of net income of \$23.6 million during the first six months of 2024, which was partially offset by \$3.0 million in dividends paid.

Our tangible stockholders' equity ratio was 9.50% as of June 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>June 30, 2024</u>	<u>December 31, 2023</u>
	(dollars in thousands)	
Stockholders' equity	\$ 392,489	\$ 370,900
Less: Goodwill and other intangible assets, net	54,026	54,978
Tangible stockholders' equity (numerator)	<u>\$ 338,463</u>	<u>\$ 315,922</u>
Total assets	\$ 3,615,731	\$ 3,609,327
Less: Goodwill and other intangible assets, net	54,026	54,978
Adjusted total assets (denominator)	<u>\$ 3,561,705</u>	<u>\$ 3,554,349</u>
Tangible stockholders' equity ratio	9.50%	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 June 30, 2024 compared to December 31, 2023, which resulted in net unrealized losses, net of tax, increasing to \$5.8 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.

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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.

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 June 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 June 30, 2024:						
Tier 1 leverage capital	\$ 336,086	9.45%	\$ 142,267	4.00%	\$ 177,834	5.00%
Common equity tier 1 capital	336,086	9.69%	156,098	4.50%	225,475	6.50%
Tier 1 risk-based capital	336,086	9.69%	208,131	6.00%	277,508	8.00%
Total risk-based capital	402,529	11.60%	277,508	8.00%	346,885	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 June 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.

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 June 30, 2024 and December 31, 2023:

	Net Interest Income			
	June 30, 2024		December 31, 2023	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock ⁽¹⁾				
+ 400	\$ 124,220	0.4%	\$ 118,120	(1.8%)
+ 300	124,033	0.3%	118,659	(1.4%)
+ 200	123,876	0.1%	119,229	(0.9%)
+ 100	123,709	0.0%	119,873	(0.4%)
+ 0 (Static)	123,696	-	120,339	-
- 100	123,306	(0.3%)	120,263	(0.1%)
- 200	122,588	(0.9%)	119,980	(0.3%)
- 300	122,218	(1.2%)	119,383	(0.8%)
- 400	121,219	(2.1%)	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 time 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 June 30, 2024 and December 31, 2023:

	Economic Value of Equity			
	June 30, 2024		December 31, 2023	
	Amount	% Change	Amount	% Change
	(dollars in thousands)			
Rate Shock ⁽¹⁾				
+ 400	\$ 336,897	(14.5%)	\$ 339,856	(16.0%)
+ 300	348,859	(11.5%)	353,989	(12.6%)
+ 200	363,803	(7.7%)	369,887	(8.6%)
+ 100	378,881	(3.8%)	386,128	(4.6%)
+ 0 (Static)	394,031	-	404,789	-
- 100	404,676	2.7%	413,888	2.3%
- 200	410,540	4.2%	420,150	3.8%
- 300	414,193	5.1%	423,035	4.5%
- 400	414,664	5.2%	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 June 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.

The Company did not purchase any shares of the Company's common stock during the six months ended June 30, 2024.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

During the three months ended June 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: August 8, 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: August 8, 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: August 8, 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 June 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: August 8, 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)