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DELTA REPORT

10-Q

FNLC - FIRST BANCORP, INC /ME/

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	774
CHANGES	525
DELETIONS	136
ADDITIONS	113

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the quarterly period ended June 30, 2023 September 30, 2023

Commission File Number 0-26589

THE FIRST BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Maine	**01-0404322**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Main Street	**Damariscotta**	**Maine**	**04543**
	(Address of principal executive offices)		(Zip code)

(207) 563-3195
Registrant's telephone number, including area code

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

Title of Each Class	**Trading Symbol**	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	FNLC	NASDAQ Global Select 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 and posted on its corporate Web site, if any, every, Interactive Data File required to be submitted and posted 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 and post such files).
Yes ☒ **No** ☐

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

Large accelerated filer ☐ **Accelerated filer** ☒ **Non-accelerated filer** ☐ **Smaller reporting company** ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has 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 Act).
Yes ☐ **No** ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of August 1, 2023 November 1, 2023
Common Stock: 11,086,007 11,093,965 shares

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Part I. Financial Information

Selected Financial Data (Unaudited)

The First Bancorp, Inc. and Subsidiary

Dollars in thousands, except for per share amounts	*Dollars in thousands, except for per share amounts*	**As of and for the six months ended June 30,**		**As of and for the quarter ended June 30,**		*Dollars in thousands, except for per share amounts*	**As of and for the nine months ended September 30,**		**As of and for the quarter ended September 30,**	
		2023	2022	**2023**	2022		**2023**	2022	**2023**	2022
Summary of Operations	***Summary of Operations***					***Summary of Operations***				
Interest Income	Interest Income	**$ 60,098**	$ 41,964	**$ 31,184**	$ 21,431	Interest Income	**$ 93,352**	$ 65,955	**$ 33,254**	$ 23,991
Interest Expense	Interest Expense	**26,698**	4,646	**15,259**	2,733	Interest Expense	**43,998**	9,273	**17,300**	4,627
Net Interest Income	Net Interest Income	**33,400**	37,318	**15,925**	18,698	Net Interest Income	**49,354**	56,682	**15,954**	19,364
Provision for Credit Losses		**701**	900	**151**	450					
Provision (reduction) for Credit Losses						Provision (reduction) for Credit Losses	**501**	1,300	**(200)**	400
Non-Interest Income	Non-Interest Income	**7,439**	8,312	**3,870**	4,080	Non-Interest Income	**11,330**	13,027	**3,891**	4,715
Non-Interest Expense	Non-Interest Expense	**21,565**	20,822	**10,715**	10,172	Non-Interest Expense	**32,571**	32,193	**11,006**	11,371
Net Income	Net Income	**15,365**	19,702	**7,394**	9,997	Net Income	**22,839**	29,793	**7,474**	10,091
Per Common Share Data	***Per Common Share Data***					***Per Common Share Data***				

Basic Earnings per Share	Basic Earnings per Share	**$ 1.40**	$ 1.80	**$ 0.67**	$ 0.91	Basic Earnings per Share	**$ 2.08**	$ 2.73	**$ 0.68**	$ 0.92
Diluted Earnings per Share	Diluted Earnings per Share	**1.39**	1.79	**0.67**	0.91	Diluted Earnings per Share	**2.06**	2.70	**0.67**	0.91
Cash Dividends Declared	Cash Dividends Declared	**0.69**	0.66	**0.35**	0.34	Cash Dividends Declared	**1.04**	1.00	**0.35**	0.34
Book Value per Common Share	Book Value per Common Share	**20.94**	20.64	**20.94**	20.64	Book Value per Common Share	**20.44**	19.92	**20.44**	19.92
Tangible Book Value per Common Share[2]	Tangible Book Value per Common Share[2]	**18.15**	17.84	**18.15**	17.84	Tangible Book Value per Common Share[2]	**17.66**	17.13	**17.66**	17.13
Market Value	Market Value	**24.34**	30.13	**24.34**	30.13	Market Value	**23.50**	27.55	**23.50**	27.55
Financial Ratios	***Financial Ratios***					***Financial Ratios***				
Return on Average Equity[1]	Return on Average Equity[1]	**13.17 %**	16.61 %	**12.73 %**	17.29 %	Equity[1]	**13.00 %**	16.78 %	**12.67 %**	17.13 %
Return on Average Tangible Common Equity[1,2]	Return on Average Tangible Common Equity[1,2]	**15.16 %**	19.07 %	**14.67 %**	19.94 %	Return on Average Tangible Common Equity[1,2]	**14.97 %**	19.29 %	**14.59 %**	19.73 %
Return on Average Assets[1]	Return on Average Assets[1]	**1.10 %**	1.55 %	**1.04 %**	1.54 %	Return on Average Assets[1]	**1.08 %**	1.54 %	**1.02 %**	1.51 %
Average Equity to Average Assets	Average Equity to Average Assets	**8.37 %**	9.35 %	**8.20 %**	8.91 %	Average Equity to Average Assets	**8.27 %**	9.16 %	**8.07 %**	8.80 %
Average Tangible Equity to Average Assets[2]	Average Tangible Equity to Average Assets[2]	**7.28 %**	8.14 %	**7.11 %**	7.73 %	Average Tangible Equity to Average Assets[2]	**7.18 %**	7.96 %	**7.01 %**	7.64 %
Net Interest Margin Tax-Equivalent[1,2]	Net Interest Margin Tax-Equivalent[1,2]	**2.62 %**	3.18 %	**2.46 %**	3.13 %	Net Interest Margin Tax-Equivalent[1,2]	**2.54 %**	3.17 %	**2.40 %**	3.14 %
Dividend Payout Ratio	Dividend Payout Ratio	**49.29 %**	36.67 %	**52.24 %**	37.36 %	Dividend Payout Ratio	**50.00 %**	36.63 %	**51.47 %**	36.96 %
Allowance for Credit Losses/Total Loans	Allowance for Credit Losses/Total Loans	**1.14 %**	0.91 %	**1.14 %**	0.91 %	Allowance for Credit Losses/Total Loans	**1.12 %**	0.88 %	**1.12 %**	0.88 %
Non-Performing Loans to Total Loans	Non-Performing Loans to Total Loans	**0.08 %**	0.27 %	**0.08 %**	0.27 %	Non-Performing Loans to Total Loans	**0.12 %**	0.10 %	**0.12 %**	0.10 %
Non-Performing Assets to Total Assets	Non-Performing Assets to Total Assets	**0.06 %**	0.18 %	**0.06 %**	0.18 %	Non-Performing Assets to Total Assets	**0.09 %**	0.07 %	**0.09 %**	0.07 %
Efficiency Ratio[2]	Efficiency Ratio[2]	**51.10 %**	44.45 %	**52.27 %**	43.49 %	Efficiency Ratio[2]	**51.88 %**	44.99 %	**53.49 %**	46.02 %

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At Period End	***At Period End***					***At Period End***				
Total Assets	Total Assets	**$ 2,874,815**	$ 2,630,354	**$ 2,874,815**	$ 2,630,354	Total Assets	**$ 2,944,139**	$ 2,735,065	**$ 2,944,139**	$ 2,735,065
Total Loans	Total Loans	**2,060,953**	1,788,355	**2,060,953**	1,788,355	Total Loans	**2,079,860**	1,857,975	**2,079,860**	1,857,975
Total Investment Securities	Total Investment Securities	**673,569**	686,150	**673,569**	686,150	Total Investment Securities	**676,206**	669,688	**676,206**	669,688
Total Deposits	Total Deposits	**2,499,862**	2,252,022	**2,499,862**	2,252,022	Total Deposits	**2,599,937**	2,369,949	**2,599,937**	2,369,949
Total Shareholders' Equity	Total Shareholders' Equity	**232,003**	227,685	**232,003**	227,685	Total Shareholders' Equity	**226,665**	219,917	**226,665**	219,917

[1] *Annualized using a 365-day basis in both 2023 and 2022.*

[2] *These ratios use non-GAAP financial measures. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional disclosures and information.*

Item 1 – Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

The First Bancorp, Inc.

Results of Review of Interim Financial Information

We have reviewed the accompanying interim consolidated financial information of The First Bancorp, Inc. and Subsidiary as of June 30, 2023 September 30, 2023 and 2022 and for the three-month and six-month nine-month periods then ended, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company's management. We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Berry Dunn McNeil & Parker, LLC

Portland, Maine

August 4, November 3, 2023

Consolidated Balance Sheets (Unaudited) The First Bancorp, Inc. and Subsidiary

		June 30, 2023	December 31, 2022	June 30, 2022		**September 30, 2023**	December 31, 2022	September 30, 2022
Assets	**Assets**				**Assets**			
Cash and cash equivalents	Cash and cash equivalents	**$ 25,077,000**	$ 22,728,000	$ 23,453,000	Cash and cash equivalents	**$ 29,894,000**	$ 22,728,000	$ 27,408,000
Interest bearing deposits in other banks	Interest bearing deposits in other banks	**3,978,000**	3,693,000	22,871,000	Interest bearing deposits in other banks	**38,366,000**	3,693,000	65,786,000
Securities available for sale	Securities available for sale	**278,355,000**	284,509,000	301,737,000	Securities available for sale	**284,972,000**	284,509,000	283,268,000
Securities held-to-maturity, net of allowance for credit losses of $428,000 at June 30, 2023[1] (fair value of $336,007,000 at June 30, 2023, $339,011,000 at December 31, 2022 and $335,950,000 at June 30, 2022)		**389,987,000**	393,896,000	379,693,000				

Securities held-to-maturity, net of allowance for credit losses of $432,000 at September 30, 2023[1] (fair value of $311,864,000 at September 30, 2023, $339,011,000 at December 31, 2022 and $313,796,000 at September 30, 2022)					Securities held-to-maturity, net of allowance for credit losses of $432,000 at September 30, 2023[1] (fair value of $311,864,000 at September 30, 2023, $339,011,000 at December 31, 2022 and $313,796,000 at September 30, 2022)	**387,374,000**	393,896,000	381,906,000
Restricted equity securities, at cost	Restricted equity securities, at cost	**5,227,000**	3,883,000	4,720,000	Restricted equity securities, at cost	**3,860,000**	3,883,000	4,514,000
Loans held for sale	Loans held for sale	**—**	275,000	689,000	Loans held for sale	**268,000**	275,000	—
Loans	Loans	**2,060,953,000**	1,914,674,000	1,788,355,000	Loans	**2,079,860,000**	1,914,674,000	1,857,975,000
Less allowance for credit losses	Less allowance for credit losses	**23,465,000**	16,723,000	16,201,000	Less allowance for credit losses	**23,322,000**	16,723,000	16,387,000
Net loans	Net loans	**2,037,488,000**	1,897,951,000	1,772,154,000	Net loans	**2,056,538,000**	1,897,951,000	1,841,588,000
Accrued interest receivable	Accrued interest receivable	**13,598,000**	9,829,000	10,262,000	Accrued interest receivable	**12,038,000**	9,829,000	8,176,000
Premises and equipment, net	Premises and equipment, net	**27,808,000**	28,277,000	29,010,000	Premises and equipment, net	**28,868,000**	28,277,000	28,548,000
Other real estate owned		**64,000**	—	51,000				
Goodwill	Goodwill	**30,646,000**	30,646,000	30,646,000	Goodwill	**30,646,000**	30,646,000	30,646,000
Other assets	Other assets	**62,587,000**	63,491,000	55,068,000	Other assets	**71,315,000**	63,491,000	63,225,000
Total assets	**Total assets**	**$ 2,874,815,000**	$ 2,739,178,000	$ 2,630,354,000	**Total assets**	**$ 2,944,139,000**	$ 2,739,178,000	$ 2,735,065,000
Liabilities	**Liabilities**				**Liabilities**			
Demand deposits	Demand deposits	**$ 296,950,000**	$ 318,626,000	$ 324,354,000	Demand deposits	**$ 323,375,000**	$ 318,626,000	$ 356,867,000
NOW deposits	NOW deposits	**615,370,000**	630,416,000	640,497,000	NOW deposits	**683,180,000**	630,416,000	656,865,000
Money market deposits	Money market deposits	**208,262,000**	192,632,000	206,313,000	Money market deposits	**271,056,000**	192,632,000	188,729,000
Savings deposits	Savings deposits	**329,651,000**	369,532,000	376,448,000	Savings deposits	**313,160,000**	369,532,000	381,312,000
Certificates of deposit	Certificates of deposit	**1,049,629,000**	867,671,000	704,410,000	Certificates of deposit	**1,009,166,000**	867,671,000	786,176,000
Total deposits	Total deposits	**2,499,862,000**	2,378,877,000	2,252,022,000	Total deposits	**2,599,937,000**	2,378,877,000	2,369,949,000
Borrowed funds – short term	Borrowed funds – short term	**89,401,000**	103,399,000	126,501,000	Borrowed funds – short term	**82,993,000**	103,399,000	118,258,000
Borrowed funds – long term	Borrowed funds – long term	**25,080,000**	84,000	87,000	Borrowed funds – long term	**—**	84,000	85,000
Other liabilities	Other liabilities	**28,469,000**	27,895,000	24,059,000	Other liabilities	**34,544,000**	27,895,000	26,856,000
Total liabilities	**Total liabilities**	**2,642,812,000**	2,510,255,000	2,402,669,000	**Total liabilities**	**2,717,474,000**	2,510,255,000	2,515,148,000
Shareholders' equity	**Shareholders' equity**				**Shareholders' equity**			
Common stock, one cent par value per share	Common stock, one cent par value per share	**111,000**	110,000	110,000	Common stock, one cent par value per share	**111,000**	110,000	110,000
Additional paid-in capital	Additional paid-in capital	**69,240,000**	68,435,000	67,627,000	Additional paid-in capital	**69,649,000**	68,435,000	68,028,000
Retained earnings	Retained earnings	**205,539,000**	204,343,000	192,565,000	Retained earnings	**209,132,000**	204,343,000	198,902,000

Accumulated other comprehensive income (loss)	Accumulated other comprehensive income (loss)				Accumulated other comprehensive income (loss)			
Net unrealized loss on securities available-for-sale	Net unrealized loss on securities available-for-sale	**(43,781,000)**	(44,718,000)	(32,795,000)	Net unrealized loss on securities available-for-sale	**(53,852,000)**	(44,718,000)	(47,661,000)
Net unrealized loss on securities transferred from available-for-sale to held-to-maturity	Net unrealized loss on securities transferred from available-for-sale to held-to-maturity	**(59,000)**	(64,000)	(73,000)	Net unrealized loss on securities transferred from available-for-sale to held-to-maturity	**(58,000)**	(64,000)	(67,000)
Net unrealized gain on hedging derivative instruments		**680,000**	544,000	146,000				
Net unrealized gain on cash flow hedging derivative instruments					Net unrealized gain on cash flow hedging derivative instruments	**1,410,000**	544,000	500,000
Net unrealized gain on postretirement costs	Net unrealized gain on postretirement costs	**273,000**	273,000	105,000	Net unrealized gain on postretirement costs	**273,000**	273,000	105,000
Total shareholders' equity	**Total shareholders' equity**	**232,003,000**	228,923,000	227,685,000	**Total shareholders' equity**	**226,665,000**	228,923,000	219,917,000
Total liabilities & shareholders' equity	**Total liabilities & shareholders' equity**	**$ 2,874,815,000**	$ 2,739,178,000	$ 2,630,354,000	**Total liabilities & shareholders' equity**	**$ 2,944,139,000**	$ 2,739,178,000	$ 2,735,065,000
Common Stock	**Common Stock**				**Common Stock**			
Number of shares authorized	Number of shares authorized	**18,000,000**	18,000,000	18,000,000	Number of shares authorized	**18,000,000**	18,000,000	18,000,000
Number of shares issued and outstanding	Number of shares issued and outstanding	**11,081,800**	11,045,186	11,030,236	Number of shares issued and outstanding	**11,089,290**	11,045,186	11,038,224
Book value per common share	Book value per common share	**$ 20.94**	$ 20.73	$ 20.64	Book value per common share	**$ 20.44**	$ 20.73	$ 19.92
Tangible book value per common share	Tangible book value per common share	**$ 18.15**	$ 17.93	$ 17.84	Tangible book value per common share	**$ 17.66**	$ 17.93	$ 17.13

[1]*December 31, 2022 and June 30, 2022 September 30, 2022 had no allowance for credit losses*

See Report of Independent Registered Public Accounting Firm. The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income (Loss) (Unaudited)

The First Bancorp, Inc. and Subsidiary

		For the six months ended June 30,		For the quarter ended June 30,			For the nine months ended September 30,		For the quarter ended September 30,	
		2023	2022	**2023**	2022		**2023**	2022	**2023**	2022
Interest income	**Interest income**					**Interest income**				
Interest and fees on loans (includes YTD tax-exempt income of $801,000 for June 30, 2023 and $582,000 for June 30, 2022)		**$ 50,531,000**	$ 33,899,000	**$ 26,406,000**	$ 17,286,000					

Interest and fees on loans (includes YTD tax-exempt income of $1,362,000 for September 30, 2023 and $879,000 for September 30, 2022)						Interest and fees on loans (includes YTD tax-exempt income of $1,362,000 for September 30, 2023 and $879,000 for September 30, 2022)	**$ 78,860,000**	$ 53,463,000	**$ 28,329,000**	$ 19,564,000
Interest on deposits with other banks	Interest on deposits with other banks	**89,000**	71,000	**49,000**	62,000	Interest on deposits with other banks	**300,000**	163,000	**211,000**	92,000
Interest and dividends on investments (includes YTD tax-exempt income of $4,016,000 for June 30, 2023 and $3,657,000 for June 30, 2022)		**9,478,000**	7,994,000	**4,729,000**	4,083,000					
Interest and dividends on investments (includes YTD tax-exempt income of $6,030,000 for September 30, 2023 and $5,588,000 for September 30, 2022)						Interest and dividends on investments (includes YTD tax-exempt income of $6,030,000 for September 30, 2023 and $5,588,000 for September 30, 2022)	**14,192,000**	12,329,000	**4,714,000**	4,335,000
Total interest income	Total interest income	**60,098,000**	41,964,000	**31,184,000**	21,431,000	Total interest income	**93,352,000**	65,955,000	**33,254,000**	23,991,000
Interest expense	**Interest expense**					**Interest expense**				
Interest on deposits	Interest on deposits	**25,392,000**	4,026,000	**14,475,000**	2,401,000	Interest on deposits	**42,384,000**	8,190,000	**16,992,000**	4,164,000
Interest on borrowed funds	Interest on borrowed funds	**1,306,000**	620,000	**784,000**	332,000	Interest on borrowed funds	**1,614,000**	1,083,000	**308,000**	463,000
Total interest expense	Total interest expense	**26,698,000**	4,646,000	**15,259,000**	2,733,000	Total interest expense	**43,998,000**	9,273,000	**17,300,000**	4,627,000
Net interest income	Net interest income	**33,400,000**	37,318,000	**15,925,000**	18,698,000	Net interest income	**49,354,000**	56,682,000	**15,954,000**	19,364,000
Provision for credit losses - loans		**580,000**	900,000	**30,000**	450,000					
Reduction in provision for credit losses - debt securities held to maturity		**(10,000)**	—	**(10,000)**	—					
Provision for credit losses - off-balance sheet credit exposures		**131,000**	—	**131,000**	—					
Provision (reduction) for credit losses - loans						Provision (reduction) for credit losses - loans	**419,000**	1,300,000	**(161,000)**	400,000
Provision (reduction) for credit losses - debt securities HTM						Provision (reduction) for credit losses - debt securities HTM	**(7,000)**	—	3,000	—

Provision (reduction) for credit losses - off-balance sheet credit exposures						Provision (reduction) for credit losses - off-balance sheet credit exposures	**89,000**	—	(42,000)	—
Total provision for credit losses	Total provision for credit losses	**701,000**	900,000	**151,000**	450,000	Total provision for credit losses	**501,000**	1,300,000	**(200,000)**	400,000
Net interest income after provision for credit losses	Net interest income after provision for credit losses	**32,699,000**	36,418,000	**15,774,000**	18,248,000	Net interest income after provision for credit losses	**48,853,000**	55,382,000	**16,154,000**	18,964,000
Non-interest income	Non-interest income					Non-interest income				
Investment management and fiduciary income	Investment management and fiduciary income	**2,355,000**	2,426,000	**1,209,000**	1,229,000	Investment management and fiduciary income	**3,515,000**	3,513,000	**1,160,000**	1,087,000
Service charges on deposit accounts	Service charges on deposit accounts	**934,000**	904,000	**497,000**	467,000	Service charges on deposit accounts	**1,399,000**	1,358,000	**465,000**	454,000
Net securities gains (losses)		**—**	1,000	**—**	(1,000)					
Net securities gains						Net securities gains	**—**	7,000	**—**	6,000
Mortgage origination and servicing income, net of amortization	Mortgage origination and servicing income, net of amortization	**387,000**	878,000	**195,000**	380,000	Mortgage origination and servicing income, net of amortization	**611,000**	1,234,000	**224,000**	356,000
Debit card income	Debit card income	**2,476,000**	2,756,000	**1,291,000**	1,326,000	Debit card income	**3,843,000**	4,884,000	**1,367,000**	2,128,000
Other operating income	Other operating income	**1,287,000**	1,347,000	**678,000**	679,000	Other operating income	**1,962,000**	2,031,000	**675,000**	684,000
Total non-interest income	Total non-interest income	**7,439,000**	8,312,000	**3,870,000**	4,080,000	Total non-interest income	**11,330,000**	13,027,000	**3,891,000**	4,715,000
Non-interest expense	**Non-interest expense**					**Non-interest expense**				
Salaries and employee benefits	Salaries and employee benefits	**10,897,000**	11,335,000	**5,177,000**	5,398,000	Salaries and employee benefits	**16,420,000**	17,092,000	**5,523,000**	5,757,000
Occupancy expense	Occupancy expense	**1,710,000**	1,578,000	**842,000**	749,000	Occupancy expense	**2,494,000**	2,298,000	**784,000**	720,000
Furniture and equipment expense	Furniture and equipment expense	**2,606,000**	2,474,000	**1,303,000**	1,239,000	Furniture and equipment expense	**4,009,000**	3,740,000	**1,403,000**	1,266,000
FDIC insurance premiums	FDIC insurance premiums	**878,000**	440,000	**534,000**	222,000	FDIC insurance premiums	**1,429,000**	738,000	**551,000**	298,000
Amortization of identified intangibles	Amortization of identified intangibles	**13,000**	35,000	**6,000**	18,000	Amortization of identified intangibles	**20,000**	52,000	**7,000**	17,000
Other operating expense	Other operating expense	**5,461,000**	4,960,000	**2,853,000**	2,546,000	Other operating expense	**8,199,000**	8,273,000	**2,738,000**	3,313,000
Total non-interest expense	Total non-interest expense	**21,565,000**	20,822,000	**10,715,000**	10,172,000	Total non-interest expense	**32,571,000**	32,193,000	**11,006,000**	11,371,000
Income before income taxes	Income before income taxes	**18,573,000**	23,908,000	**8,929,000**	12,156,000	Income before income taxes	**27,612,000**	36,216,000	**9,039,000**	12,308,000
Income tax expense	Income tax expense	**3,208,000**	4,206,000	**1,535,000**	2,159,000	Income tax expense	**4,773,000**	6,423,000	**1,565,000**	2,217,000

NET INCOME	**NET INCOME**	**$ 15,365,000**	$ 19,702,000	**$ 7,394,000**	$ 9,997,000	**NET INCOME**	**$ 22,839,000**	$ 29,793,000	**$ 7,474,000**	$ 10,091,000
Basic earnings per common share	Basic earnings per common share	**$ 1.40**	$ 1.80	**$ 0.67**	$ 0.91	Basic earnings per common share	**$ 2.08**	$ 2.73	**$ 0.68**	$ 0.92
Diluted earnings per common share	Diluted earnings per common share	**$ 1.39**	$ 1.79	**$ 0.67**	$ 0.91	Diluted earnings per common share	**$ 2.06**	$ 2.70	**$ 0.67**	$ 0.91
Other comprehensive income (loss) net of tax	**Other comprehensive income (loss) net of tax**					**Other comprehensive income (loss) net of tax**				
Net unrealized gain (loss) on securities available for sale, net of taxes		**$ 937,000**	$ (31,077,000)	**$ (3,244,000)**	$ (12,734,000)					
Net unrealized loss on securities available for sale, net of taxes						Net unrealized loss on securities available for sale, net of taxes	**$ (9,134,000)**	$ (45,943,000)	**$ (10,071,000)**	$ (14,866,000)
Net unrealized gain on transferred securities, net of taxes	Net unrealized gain on transferred securities, net of taxes	**5,000**	14,000	**1,000**	5,000	Net unrealized gain on transferred securities, net of taxes	**6,000**	20,000	**1,000**	6,000
Net unrealized gain on hedging derivative instruments	Net unrealized gain on hedging derivative instruments	**136,000**	146,000	**2,872,000**	146,000	Net unrealized gain on hedging derivative instruments	**866,000**	500,000	**730,000**	354,000
Other comprehensive income (loss)		**1,078,000**	(30,917,000)	**(371,000)**	(12,583,000)					
Other comprehensive loss						Other comprehensive loss	**(8,262,000)**	(45,423,000)	**(9,340,000)**	(14,506,000)
Comprehensive income (loss)	Comprehensive income (loss)	**$ 16,443,000**	$ (11,215,000)	**$ 7,023,000**	$ (2,586,000)	Comprehensive income (loss)	**$ 14,577,000**	$ (15,630,000)	**$ (1,866,000)**	$ (4,415,000)

See Report of Independent Registered Public Accounting Firm.

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

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

The First Bancorp, Inc. and Subsidiary

	Six Month Period Ended June 30, 2023 and 2022											
Nine Month Period Ended September 30, 2023 and 2022							**Nine Month Period Ended September 30, 2023 and 2022**					
		Common stock and additional paid-in capital			Accumulated other	Total		Common stock and additional paid-in capital			Accumulated other	Total
		Shares	Amount	Retained earnings	comprehensive income (loss)	shareholders' equity		Shares	Amount	Retained earnings	comprehensive income (loss)	shareholders' equity
Balance at December 31, 2021	**Balance at December 31, 2021**	**10,998,765**	**$ 66,940,000**	**$ 180,417,000**	**$ (1,700,000)**	**$ 245,657,000**	**Balance at December 31, 2021**	**10,998,765**	**$ 66,940,000**	**$ 180,417,000**	**$ (1,700,000)**	**$ 245,657,000**
Net income	Net income	—	—	19,702,000	—	19,702,000	Net income	—	—	29,793,000	—	29,793,000
Net unrealized loss on securities available for sale, net of tax	Net unrealized loss on securities available for sale, net of tax	—	—	—	(31,077,000)	(31,077,000)	Net unrealized loss on securities available for sale, net of tax	—	—	—	(45,943,000)	(45,943,000)

Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	14,000	14,000	Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	20,000	20,000
Net unrealized gain on cash flow hedging derivative instruments, net of tax	Net unrealized gain on cash flow hedging derivative instruments, net of tax	—	—	—	146,000	146,000	Net unrealized gain on cash flow hedging derivative instruments, net of tax	—	—	—	500,000	500,000
Comprehensive income (loss)	Comprehensive income (loss)	—	—	19,702,000	(30,917,000)	(11,215,000)	Comprehensive income (loss)	—	—	29,793,000	(45,423,000)	(15,630,000)
Cash dividends declared ($0.66 per share)		—	—	(7,278,000)	—	(7,278,000)						
Cash dividends declared ($1.00 per share)							Cash dividends declared ($1.00 per share)	—	—	(11,032,000)	—	(11,032,000)
Equity compensation expense	Equity compensation expense	—	412,000	—	—	412,000	Equity compensation expense	—	610,000	—	—	610,000
Payment to repurchase common stock	Payment to repurchase common stock	(8,643)	—	(276,000)	—	(276,000)	Payment to repurchase common stock	(8,640)	—	(276,000)	—	(276,000)
Issuance of restricted stock	Issuance of restricted stock	27,495	—	—	—	—	Issuance of restricted stock	28,745	—	—	—	—
Proceeds from sale of common stock	Proceeds from sale of common stock	12,619	385,000	—	—	385,000	Proceeds from sale of common stock	19,354	588,000	—	—	588,000
Balance at June 30, 2022		**11,030,236**	**$ 67,737,000**	**$ 192,565,000**	**$ (32,617,000)**	**$ 227,685,000**						
Balance at September 30, 2022							**Balance at September 30, 2022**	**11,038,224**	**$ 68,138,000**	**$198,902,000**	**$ (47,123,000)**	**$219,917,000**
Balance at December 31, 2022	**Balance at December 31, 2022**	**11,045,186**	**$ 68,545,000**	**$ 204,343,000**	**$ (43,965,000)**	**$ 228,923,000**	**Balance at December 31, 2022**	**11,045,186**	**$ 68,545,000**	**$204,343,000**	**$ (43,965,000)**	**$228,923,000**
Net income	Net income	—	—	15,365,000	—	15,365,000	Net income	—	—	22,839,000	—	22,839,000
Net unrealized gain on securities available for sale, net of tax		—	—	—	937,000	937,000						
Net unrealized loss on securities available for sale, net of tax							Net unrealized loss on securities available for sale, net of tax	—	—	—	(9,134,000)	(9,134,000)
Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	5,000	5,000	Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	6,000	6,000

		Shares	Amount	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity		Shares	Amount	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Net unrealized gain on hedging derivative instruments, net of tax	Net unrealized gain on hedging derivative instruments, net of tax	—	—	—	136,000	136,000	Net unrealized gain on hedging derivative instruments, net of tax	—	—	—	866,000	866,000
Comprehensive income		—	—	15,365,000	1,078,000	16,443,000						
Comprehensive income (loss)							Comprehensive income (loss)	—	—	22,839,000	(8,262,000)	14,577,000
Cash dividends declared ($0.69 per share)		—	—	(7,643,000)	—	(7,643,000)						
Cash dividends declared ($1.04 per share)							Cash dividends declared ($1.04 per share)	—	—	(11,525,000)	—	(11,525,000)
Equity compensation expense	Equity compensation expense	—	398,000	—	—	398,000	Equity compensation expense	—	607,000	—	—	607,000
Payment to repurchase common stock	Payment to repurchase common stock	(12,379)	—	(249,000)	—	(249,000)	Payment to repurchase common stock	(12,629)	—	(248,000)	—	(248,000)
Issuance of restricted stock	Issuance of restricted stock	33,610	—	—	—	—	Issuance of restricted stock	33,610	—	—	—	—
Proceeds from sale of common stock	Proceeds from sale of common stock	15,383	408,000	—	—	408,000	Proceeds from sale of common stock	23,123	608,000	—	—	608,000
Adoption of ASU No. 2016-13	Adoption of ASU No. 2016-13	—	—	(6,277,000)	—	(6,277,000)	Adoption of ASU No. 2016-13	—	—	(6,277,000)	—	(6,277,000)
Balance at June 30, 2023		**11,081,800**	**$ 69,351,000**	**$ 205,539,000**	**$ (42,887,000)**	**$ 232,003,000**						
Balance at September 30, 2023							**Balance at September 30, 2023**	**11,089,290**	**$ 69,760,000**	**$ 209,132,000**	**$ (52,227,000)**	**$ 226,665,000**

	Three Month Period Ended June 30, 2023 and 2022											
Three Month Period Ended September 30, 2023 and 2022							**Three Month Period Ended September 30, 2023 and 2022**					
		Common stock and additional paid-in capital			Accumulated other	Total		Common stock and additional paid-in capital			Accumulated other	Total
		Shares	Amount	Retained earnings	comprehensive income (loss)	shareholders' equity		Shares	Amount	Retained earnings	comprehensive income (loss)	shareholders' equity
Balance at March 31, 2022		**11,024,086**	**$ 67,356,000**	**$ 186,324,000**	**$ (20,034,000)**	**$ 233,646,000**						
Balance at June 30, 2022							**Balance at June 30, 2022**	**11,030,236**	**$ 67,737,000**	**$ 192,565,000**	**$ (32,617,000)**	**$ 227,685,000**
Net income	Net income	—	—	9,997,000	—	9,997,000	Net income	—	—	10,091,000	—	10,091,000
Net unrealized loss on securities available for sale, net of tax	Net unrealized loss on securities available for sale, net of tax	—	—	—	(12,734,000)	(12,734,000)	Net unrealized loss on securities available for sale, net of tax	—	—	—	(14,866,000)	(14,866,000)

Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	5,000	5,000	Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	6,000	6,000
Net unrealized gain on cash flow hedging derivative instruments, net of tax	Net unrealized gain on cash flow hedging derivative instruments, net of tax	—	—	—	146,000	146,000	Net unrealized gain on cash flow hedging derivative instruments, net of tax	—	—	—	354,000	354,000
Comprehensive income (loss)	Comprehensive income (loss)	—	—	9,997,000	(12,583,000)	(2,586,000)	Comprehensive income (loss)	—	—	10,091,000	(14,506,000)	(4,415,000)
Cash dividends declared ($0.34 per share)	Cash dividends declared ($0.34 per share)	—	—	(3,750,000)	—	(3,750,000)	Cash dividends declared ($0.34 per share)	—	—	(3,754,000)	—	(3,754,000)
Equity compensation expense	Equity compensation expense	—	195,000	—	—	195,000	Equity compensation expense	—	198,000	—	—	198,000
Payment to repurchase common stock		(199)	—	(6,000)	—	(6,000)						
Issuance of restricted stock							Issuance of restricted stock	1,250	—	—	—	—
Proceeds from sale of common stock	Proceeds from sale of common stock	6,349	186,000	—	—	186,000	Proceeds from sale of common stock	6,738	203,000	—	—	203,000
Balance at June 30, 2022		**11,030,236**	**$ 67,737,000**	**$ 192,565,000**	**$ (32,617,000)**	**$ 227,685,000**						
Balance at September 30, 2022							**Balance at September 30, 2022**	**11,038,224**	**$ 68,138,000**	**$ 198,902,000**	**$ (47,123,000)**	**$ 219,917,000**
Balance at March 31, 2023		**11,074,182**	**$ 68,941,000**	**$ 202,036,000**	**$ (42,516,000)**	**$ 228,461,000**						
Balance at June 30, 2023							**Balance at June 30, 2023**	**11,081,800**	**$ 69,351,000**	**$ 205,539,000**	**$ (42,887,000)**	**$ 232,003,000**
Net income	Net income	—	—	7,394,000	—	7,394,000	Net income	—	—	7,474,000	—	7,474,000
Net unrealized loss on securities available for sale, net of tax	Net unrealized loss on securities available for sale, net of tax	—	—	—	(3,244,000)	(3,244,000)	Net unrealized loss on securities available for sale, net of tax	—	—	—	(10,071,000)	(10,071,000)
Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	1,000	1,000	Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	1,000	1,000
Net unrealized gain on cash flow hedging derivative instruments, net of tax		—	—	—	2,872,000	2,872,000						

Net unrealized gain on hedging derivative instruments, net of tax							Net unrealized gain on hedging derivative instruments, net of tax	—	—	—	730,000	730,000
Comprehensive income (loss)	Comprehensive income (loss)	—	—	7,394,000	(371,000)	7,023,000	Comprehensive income (loss)	—	—	7,474,000	(9,340,000)	(1,866,000)
Cash dividends declared ($0.35 per share)	Cash dividends declared ($0.35 per share)	—	—	(3,878,000)	—	(3,878,000)	Cash dividends declared ($0.35 per share)	—	—	(3,881,000)	—	(3,881,000)
Equity compensation expense	Equity compensation expense	—	213,000	—	—	213,000	Equity compensation expense	—	210,000	—	—	210,000
Payment to repurchase common stock	Payment to repurchase common stock	(555)	—	(13,000)	—	(13,000)	Payment to repurchase common stock	(250)	—	—	—	—
Proceeds from sale of common stock	Proceeds from sale of common stock	8,173	197,000	—	—	197,000	Proceeds from sale of common stock	7,740	199,000	—	—	199,000
Balance at June 30, 2023		**11,081,800**	**$ 69,351,000**	**$ 205,539,000**	**$ (42,887,000)**	**$ 232,003,000**						
Balance at September 30, 2023							**Balance at September 30, 2023**	**11,089,290**	**$ 69,760,000**	**$ 209,132,000**	**$ (52,227,000)**	**$ 226,665,000**

See Report of Independent Registered Public Accounting Firm.

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

Consolidated Statements of Cash Flows (Unaudited)

The First Bancorp, Inc. and Subsidiary

		For the six months ended June 30,			For the nine months ended September 30,	
		2023	2022		**2023**	2022
Cash flows from operating activities	**Cash flows from operating activities**			**Cash flows from operating activities**		
Net income	Net income	**$ 15,365,000**	$ 19,702,000	Net income	**$ 22,839,000**	$ 29,793,000
Adjustments to reconcile net income to net cash provided by operating activities	**Adjustments to reconcile net income to net cash provided by operating activities**			**Adjustments to reconcile net income to net cash provided by operating activities**		
Depreciation	Depreciation	**1,012,000**	996,000	Depreciation	**1,563,000**	1,495,000
Change in deferred taxes	Change in deferred taxes	**(1,503,000)**	48,000	Change in deferred taxes	**(1,283,000)**	19,000
Provision for credit losses	Provision for credit losses	**701,000**	900,000	Provision for credit losses	**501,000**	1,300,000
Loans originated for resale	Loans originated for resale	**(1,679,000)**	(16,880,000)	Loans originated for resale	**(3,082,000)**	(20,152,000)
Proceeds from sales and transfers of loans	Proceeds from sales and transfers of loans	**1,993,000**	17,342,000	Proceeds from sales and transfers of loans	**3,157,000**	21,372,000

Net gain on sales of loans	Net gain on sales of loans	**(39,000)**	(316,000)	Net gain on sales of loans	**(68,000)**	(385,000)
Net gain on sale or call of securities	Net gain on sale or call of securities	—	(1,000)	Net gain on sale or call of securities	—	(7,000)
Net amortization of premiums on investments	Net amortization of premiums on investments	**263,000**	508,000	Net amortization of premiums on investments	**423,000**	763,000
Net (gain) loss on sale of other real estate owned				Net (gain) loss on sale of other real estate owned	**(42,000)**	1,000
Equity compensation expense	Equity compensation expense	**398,000**	412,000	Equity compensation expense	**607,000**	610,000
Net increase in other assets and accrued interest	Net increase in other assets and accrued interest	**(550,000)**	(5,732,000)	Net increase in other assets and accrued interest	**(6,858,000)**	(11,362,000)
Net (decrease) increase in other liabilities		**(226,000)**	2,103,000			
Net increase in other liabilities				Net increase in other liabilities	**8,156,000**	8,720,000
Net (gain) loss on disposal of premises and equipment	Net (gain) loss on disposal of premises and equipment	**1,000**	(14,000)	Net (gain) loss on disposal of premises and equipment	**33,000**	(15,000)
Amortization of investment in limited partnership	Amortization of investment in limited partnership	**152,000**	152,000	Amortization of investment in limited partnership	**227,000**	229,000
Net acquisition amortization	Net acquisition amortization	**13,000**	35,000	Net acquisition amortization	**20,000**	52,000
Net cash provided by operating activities	Net cash provided by operating activities	**15,901,000**	19,255,000	Net cash provided by operating activities	**26,193,000**	32,433,000
Cash flows from investing activities	**Cash flows from investing activities**			**Cash flows from investing activities**		
(Increase) decrease in interest-bearing deposits in other banks	(Increase) decrease in interest-bearing deposits in other banks	**(285,000)**	43,807,000	(Increase) decrease in interest-bearing deposits in other banks	**(34,673,000)**	892,000
Proceeds from sales of securities available for sale				Proceeds from sales of securities available for sale	—	1,301,000

Proceeds from maturities, payments and calls of securities available for sale	Proceeds from maturities, payments and calls of securities available for sale	**10,619,000**	27,123,000	Proceeds from maturities, payments and calls of securities available for sale	**17,037,000**	35,633,000
Proceeds from maturities, payments, calls and sales of securities to be held to maturity	Proceeds from maturities, payments, calls and sales of securities to be held to maturity	**3,441,000**	12,907,000	Proceeds from maturities, payments, calls and sales of securities to be held to maturity	**6,023,000**	15,073,000
Proceeds from sales of other real estate owned				Proceeds from sales of other real estate owned	**106,000**	50,000
Purchases of securities available for sale	Purchases of securities available for sale	**(3,496,000)**	(47,998,000)	Purchases of securities available for sale	**(29,409,000)**	(58,324,000)
Purchases of securities to be held to maturity	Purchases of securities to be held to maturity	**—**	(22,683,000)	Purchases of securities to be held to maturity	**—**	(27,138,000)
Change in restricted equity securities		**(1,344,000)**	—			
Redemption of restricted equity securities	Redemption of restricted equity securities	**—**	645,000	Redemption of restricted equity securities	**23,000**	851,000
Net increase in loans	Net increase in loans	**(146,391,000)**	(140,977,000)	Net increase in loans	**(165,280,000)**	(210,811,000)
Capital expenditures	Capital expenditures	**(586,000)**	(1,107,000)	Capital expenditures	**(2,253,000)**	(1,165,000)
Proceeds from disposal of premises and equipment	Proceeds from disposal of premises and equipment	**—**	37,000	Proceeds from disposal of premises and equipment	**3,000**	38,000
Net cash used by investing activities	Net cash used by investing activities	**(138,042,000)**	(128,246,000)	Net cash used by investing activities	**(208,423,000)**	(243,600,000)
Cash flows from financing activities	**Cash flows from financing activities**			**Cash flows from financing activities**		
Net decrease in demand, savings, and money market accounts		**(60,973,000)**	(9,480,000)			

Net increase in demand, savings, and money market accounts				Net increase in demand, savings, and money market accounts	**79,565,000**	26,681,000
Net increase in certificates of deposit	Net increase in certificates of deposit	**181,958,000**	138,205,000	Net increase in certificates of deposit	**141,495,000**	219,971,000
Net (decrease) increase in short-term borrowings	Net (decrease) increase in short-term borrowings	**(13,998,000)**	45,250,000	Net (decrease) increase in short-term borrowings	**(20,490,000)**	37,006,000
Advances on long-term borrowings		**25,000,000**	—			
Repayment on long-term borrowings	Repayment on long-term borrowings	**(4,000)**	(55,004,000)	Repayment on long-term borrowings	**—**	(55,005,000)
Payment to repurchase common stock	Payment to repurchase common stock	**(249,000)**	(276,000)	Payment to repurchase common stock	**(248,000)**	(276,000)
Proceeds from sale of common stock	Proceeds from sale of common stock	**408,000**	385,000	Proceeds from sale of common stock	**608,000**	588,000
Dividends paid	Dividends paid	**(7,652,000)**	(7,270,000)	Dividends paid	**(11,534,000)**	(11,024,000)
Net cash provided by financing activities	Net cash provided by financing activities	**124,490,000**	111,810,000	Net cash provided by financing activities	**189,396,000**	217,941,000
Net increase in cash and cash equivalents	Net increase in cash and cash equivalents	**2,349,000**	2,819,000	Net increase in cash and cash equivalents	**7,166,000**	6,774,000
Cash and cash equivalents at beginning of period	Cash and cash equivalents at beginning of period	**22,728,000**	20,634,000	Cash and cash equivalents at beginning of period	**22,728,000**	20,634,000
Cash and cash equivalents at end of period	**Cash and cash equivalents at end of period**	**$ 25,077,000**	$ 23,453,000	**Cash and cash equivalents at end of period**	**$ 29,894,000**	$ 27,408,000

		For the six months ended June 30,			**For the nine months ended September 30,**	
		2023	2022		**2023**	2022
Interest paid	Interest paid	**$ 26,369,000**	$ 4,503,000	Interest paid	**$ 43,643,000**	$ 9,061,000
Income taxes paid	Income taxes paid	**3,170,000**	3,216,000	Income taxes paid	**4,500,000**	5,745,000
Non-cash transactions	**Non-cash transactions**			**Non-cash transactions**		

Change in net unrealized loss on available for sale securities, net of tax	Change in net unrealized loss on available for sale securities, net of tax	**$ (937,000)**	$31,077,000	Change in net unrealized loss on available for sale securities, net of tax	**$ 9,134,000**	$45,943,000
Net transfer from loans to other real estate owned		**64,000**	51,000			

See Report of Independent Registered Public Accounting Firm.

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

Notes to Consolidated Financial Statements

The First Bancorp, Inc. and Subsidiary

Note 1 – Basis of Presentation

The Company is a financial holding company that owns all of the common stock of the Bank. The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of Management, all adjustments (consisting of normally recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the 2023 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2023. For further information, refer to the consolidated financial statements and notes included in the Company's annual report on Form 10-K for the year ended December 31, 2022.

The acronyms, abbreviations and definitions identified below are used throughout this Form 10-Q, including Item 1 - Financial Statements and Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations. The following is provided to aid the reader and provide a reference page when reviewing these sections of the Form 10-Q.

Acronym	Description	Acronym	Description
ACL	Allowance for credit losses	GDP	Gross domestic product
AFS	Available-for-sale	GNMA	Government National Mortgage Association
ALCO	Asset/Liability Committee	HTM	Held-to-maturity
AOCI	Accumulated other comprehensive income (loss)	IRS	Internal Revenue Service
ASC	Accounting Standards Codification	LIBOR	London Interbank Offered Rate
ASU	Accounting Standards Update	MPF	Mortgage Partnership Finance Program
BTFP	Bank Term Funding Program	OAEM	Other assets especially mentioned
C&I	Commercial and Industrial	OCC	Office of the Comptroller of the Currency
CDs	Certificates of deposit	OCI	Other comprehensive income (loss)
CECL	Current Expected Credit Loss	OIS	Overnight Indexed Swap
CLLD	Construction, land, and land development	OREO	Other real estate owned
DFAST	Dodd Frank Act Stress Tests	POR	Period of Redemption
EPS	Earnings per share	PPP	Paycheck Protection Program
FASB	Financial Accounting Standards Board	PSA	Public Securities Association
FDIC	Federal Deposit Insurance Corporation	SBA	Small Business Association
FHLB	Federal Home Loan Bank	SEC	Securities and Exchange Commission
FHLBB	Federal Home Loan Bank of Boston	SOFR	Secured Overnight Financing Rate
FHLMC	Federal Home Loan Mortgage Corporation	TDR	Troubled debt restructuring
FNMA	Federal National Mortgage Association	The 2020 Plan	The 2020 Equity Incentive Plan
FOMC	Federal Open Market Committee	The Bank	First National Bank
FRB	Federal Reserve Board	The Company	The First Bancorp, Inc.
FRBB	Federal Reserve Bank of Boston	U.S.	United States of America
GAAP	Accounting principles generally accepted in the U.S.	USD	U.S. Dollar

Risks and Uncertainties

The ongoing conflict between Russia and Ukraine has added to coupled with new tensions in the Middle East have increased economic uncertainty and geopolitical instability. Concern is developing continues to be expressed nationally about the commercial real estate market and the impact a downturn in this sector could have on the banking industry.

The failures in 2023 of several regional banks in the U.S. caused further disruption in markets in the first half of 2023, and could have a lingering impact. Any or all could have negative downstream effects on the Company's operating results, the extent of which is indeterminable at this time.

Subsequent Events

Events occurring subsequent to June 30, 2023 September 30, 2023, have been evaluated as to their potential impact to the financial statements.

Note 2 – Investment Securities

The following table summarizes the amortized cost and estimated fair value of investment securities at June 30, 2023 September 30, 2023:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale					**Securities available for sale**				
U.S. Government-sponsored agencies	$ 26,029,000	$ —	$ (6,668,000)	$ 19,361,000					
U.S. Treasury & Agency securities					U.S. Treasury & Agency securities	$ 45,851,000	$ —	$ (7,599,000)	$ 38,252,000
Mortgage-backed securities	264,092,000	33,000	(41,933,000)	222,192,000	Mortgage-backed securities	263,775,000	1,000	(50,930,000)	212,846,000
State and political subdivisions	40,434,000	—	(6,815,000)	33,619,000	State and political subdivisions	40,417,000	—	(9,637,000)	30,780,000
Asset-backed securities	3,218,000	12,000	(47,000)	3,183,000	Asset-backed securities	3,097,000	1,000	(4,000)	3,094,000
	$ 333,773,000	$ 45,000	$ (55,463,000)	$ 278,355,000		$ 353,140,000	$ 2,000	$ (68,170,000)	$ 284,972,000
Securities to be held to maturity					**Securities to be held to maturity**				
U.S. Government-sponsored agencies	$ 40,100,000	$ —	$ (10,150,000)	$ 29,950,000					
U.S. Treasury & Agency securities					U.S. Treasury & Agency securities	$ 40,100,000	$ —	$ (11,996,000)	$ 28,104,000
Mortgage-backed securities	58,484,000	31,000	(10,991,000)	47,524,000	Mortgage-backed securities	57,224,000	4,000	(13,336,000)	43,892,000
State and political subdivisions	257,081,000	159,000	(29,547,000)	227,693,000	State and political subdivisions	255,732,000	16,000	(46,807,000)	208,941,000
Corporate securities	34,750,000	—	(3,910,000)	30,840,000	Corporate securities	34,750,000	—	(3,823,000)	30,927,000
	$ 390,415,000	$ 190,000	$ (54,598,000)	$ 336,007,000		$ 387,806,000	$ 20,000	$ (75,962,000)	$ 311,864,000
Less allowance for credit losses	(428,000)	—	—	—	Less allowance for credit losses	(432,000)	—	—	—
Net securities to be held to maturity	$ 389,987,000	$ —	$ —	$ —	Net securities to be held to maturity	$ 387,374,000	$ —	$ —	$ —
Restricted equity securities					**Restricted equity securities**				

Federal Home Loan Bank Stock	Federal Home Loan Bank Stock	$ 4,190,000	$ —	$ —	$ 4,190,000	Federal Home Loan Bank Stock	$ 2,823,000	$ —	$ —	$ 2,823,000
Federal Reserve Bank Stock	Federal Reserve Bank Stock	1,037,000	—	—	1,037,000	Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
		$ 5,227,000	$ —	$ —	$ 5,227,000		$ 3,860,000	$ —	$ —	$ 3,860,000

Allowance for Credit Losses: The Company adopted ASC 326, the CECL standard, in the first quarter of 2023. In conjunction with adoption, holdings of AFS and HTM securities were evaluated to determine the need to establish an allowance for credit losses, if any.

AFS securities, as shown in the table above, consist of securities issued by U.S. Government Agencies, U.S. Government Sponsored Entities, State or Local Municipal Governments, or are backed by collateral that is guaranteed by the U.S. Government. We monitor the credit quality of these investments through credit ratings issued by major rating providers and through substantial price changes not consistent with general market movements. Each of the AFS securities is deemed to be investment grade, and no ACL has been established for AFS securities.

Similarly, the agency and mortgage-backed securities in the HTM portfolio have been determined to all be investment grade with no ACL required. Municipal securities within HTM include two private activity bonds issued by well-known customers of the Bank with total balances of $19,877,000 $19,734,000 as of June 30, 2023 September 30, 2023. These bonds carry similar risk characteristics to the commercial real estate - owner occupied segment of the Bank's loan portfolio described in Note 3; management has elected to apply a loss rate matching the loan segment to the balance of these bonds for purposes of establishing an ACL. Corporate securities in HTM consist of thirteen fourteen individual companies in the banking industry. Management reviewed the collectability of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, and other performance factors. Aggregate credit risk of the corporate securities is considered very low and a small an immaterial ACL has been established. The total ACL for HTM securities was $428,000 $432,000 as of June 30, 2023 September 30, 2023; there was no reserve as of December 31, 2022 and June 30, 2022 September 30, 2022.

Changes in the allowance for credit losses are recorded as credit loss expense, or reversal. Losses would be charged against the allowance when management believes collection of the full contractual amount due on a security is unlikely.

The following table summarizes the amortized cost and estimated fair value of investment securities at December 31, 2022:

		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale	**Securities available for sale**					**Securities available for sale**				
U.S. Government-sponsored agencies		$ 26,025,000	$ —	$ (6,878,000)	$ 19,147,000					
U.S. Treasury & Agency securities						U.S. Treasury & Agency securities	$ 26,025,000	$ —	$ (6,878,000)	$ 19,147,000
Mortgage-backed securities	Mortgage-backed securities	271,068,000	55,000	(42,447,000)	228,676,000	Mortgage-backed securities	271,068,000	55,000	(42,447,000)	228,676,000
State and political subdivisions	State and political subdivisions	40,472,000	2,000	(7,283,000)	33,191,000	State and political subdivisions	40,472,000	2,000	(7,283,000)	33,191,000
Asset-backed securities	Asset-backed securities	3,548,000	—	(53,000)	3,495,000	Asset-backed securities	3,548,000	—	(53,000)	3,495,000
		$ 341,113,000	$ 57,000	$ (56,661,000)	$ 284,509,000		$ 341,113,000	$ 57,000	$ (56,661,000)	$ 284,509,000
Securities to be held to maturity	**Securities to be held to maturity**					**Securities to be held to maturity**				
U.S. Government-sponsored agencies		$ 40,100,000	$ 4,000	$ (10,477,000)	$ 29,627,000					
U.S. Treasury & Agency securities						U.S. Treasury & Agency securities	$ 40,100,000	$ 4,000	$ (10,477,000)	$ 29,627,000

Mortgage-backed securities	Mortgage-backed securities	60,497,000	42,000	(11,392,000)	49,147,000	Mortgage-backed securities	60,497,000	42,000	(11,392,000)	49,147,000
State and political subdivisions	State and political subdivisions	258,549,000	154,000	(30,733,000)	227,970,000	State and political subdivisions	258,549,000	154,000	(30,733,000)	227,970,000
Corporate securities	Corporate securities	34,750,000	—	(2,483,000)	32,267,000	Corporate securities	34,750,000	—	(2,483,000)	32,267,000
		$ 393,896,000	$ 200,000	$ (55,085,000)	$ 339,011,000		$ 393,896,000	$ 200,000	$ (55,085,000)	$ 339,011,000
Restricted equity securities	**Restricted equity securities**					**Restricted equity securities**				
Federal Home Loan Bank Stock	Federal Home Loan Bank Stock	$ 2,846,000	$ —	$ —	$ 2,846,000	Federal Home Loan Bank Stock	$ 2,846,000	$ —	$ —	$ 2,846,000
Federal Reserve Bank Stock	Federal Reserve Bank Stock	1,037,000	—	—	1,037,000	Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
		$ 3,883,000	$ —	$ —	$ 3,883,000		$ 3,883,000	$ —	$ —	$ 3,883,000

The following table summarizes the amortized cost and estimated fair value of investment securities at June 30, 2022 September 30, 2022:

		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale	**Securities available for sale**					**Securities available for sale**				
U.S. Government-sponsored agencies		$ 26,021,000	$ —	$ (4,954,000)	$ 21,067,000					
U.S. Treasury & Agency securities						U.S. Treasury & Agency securities	$ 26,023,000	$ —	$ (6,879,000)	$ 19,144,000
Mortgage-backed securities	Mortgage-backed securities	274,652,000	31,000	(30,001,000)	244,682,000	Mortgage-backed securities	273,215,000	4,000	(44,041,000)	229,178,000
State and political subdivisions	State and political subdivisions	38,450,000	12,000	(6,512,000)	31,950,000	State and political subdivisions	40,489,000	—	(9,383,000)	31,106,000
Asset-backed securities	Asset-backed securities	4,126,000	—	(88,000)	4,038,000	Asset-backed securities	3,872,000	—	(32,000)	3,840,000
		$ 343,249,000	$ 43,000	$ (41,555,000)	$ 301,737,000		$ 343,599,000	$ 4,000	$ (60,335,000)	$ 283,268,000
Securities to be held to maturity	**Securities to be held to maturity**					**Securities to be held to maturity**				
U.S. Government-sponsored agencies		$ 38,100,000	$ —	$ (7,390,000)	$ 30,710,000					
U.S. Treasury & Agency securities						U.S. Treasury & Agency securities	$ 38,100,000	$ —	$ (10,428,000)	$ 27,672,000
Mortgage-backed securities	Mortgage-backed securities	57,739,000	107,000	(8,403,000)	49,443,000	Mortgage-backed securities	56,423,000	48,000	(11,784,000)	44,687,000
State and political subdivisions	State and political subdivisions	256,104,000	303,000	(27,816,000)	228,591,000	State and political subdivisions	257,633,000	38,000	(43,899,000)	213,772,000

Corporate securities	Corporate securities	27,750,000	—	(544,000)	27,206,000	Corporate securities	29,750,000	—	(2,085,000)	27,665,000
		$ 379,693,000	$ 410,000	$ (44,153,000)	$ 335,950,000		$ 381,906,000	$ 86,000	$ (68,196,000)	$ 313,796,000
Restricted equity securities	**Restricted equity securities**					**Restricted equity securities**				
Federal Home Loan Bank Stock	Federal Home Loan Bank Stock	$ 3,683,000	$ —	$ —	$ 3,683,000	Federal Home Loan Bank Stock	$ 3,477,000	$ —	$ —	$ 3,477,000
Federal Reserve Bank Stock	Federal Reserve Bank Stock	1,037,000	—	—	1,037,000	Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
		$ 4,720,000	$ —	$ —	$ 4,720,000		$ 4,514,000	$ —	$ —	$ 4,514,000

The following table summarizes the contractual maturities of investment securities at June 30, 2023 September 30, 2023:

		Securities available for sale		Securities to be held to maturity			Securities available for sale		Securities to be held to maturity	
		Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)		Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	Due in 1 year or less	$ —	$ —	$ 2,440,000	$ 2,435,000	Due in 1 year or less	$ 19,819,000	$ 19,819,000	$ 2,158,000	$ 2,151,000
Due in 1 to 5 years	Due in 1 to 5 years	3,545,000	3,359,000	14,594,000	13,811,000	Due in 1 to 5 years	3,640,000	3,468,000	15,780,000	14,771,000
Due in 5 to 10 years	Due in 5 to 10 years	20,275,000	16,707,000	92,570,000	85,504,000	Due in 5 to 10 years	28,082,000	23,360,000	92,565,000	81,812,000
Due after 10 years	Due after 10 years	309,953,000	258,289,000	280,811,000	234,257,000	Due after 10 years	301,599,000	238,325,000	277,303,000	213,130,000
		$ 333,773,000	$ 278,355,000	$ 390,415,000	$ 336,007,000		$ 353,140,000	$ 284,972,000	$ 387,806,000	$ 311,864,000

The following table summarizes the contractual maturities of investment securities at December 31, 2022:

	Securities available for sale		Securities to be held to maturity	
	Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	$ —	$ —	$ 1,787,000	$ 1,782,000
Due in 1 to 5 years	3,609,000	3,409,000	14,998,000	14,480,000
Due in 5 to 10 years	18,591,000	15,203,000	86,833,000	81,443,000
Due after 10 years	318,913,000	265,897,000	290,278,000	241,306,000
	$ 341,113,000	$ 284,509,000	$ 393,896,000	$ 339,011,000

The following table summarizes the contractual maturities of investment securities at June 30, 2022 September 30, 2022:

		Securities available for sale		Securities to be held to maturity			Securities available for sale		Securities to be held to maturity	
		Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)		Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	Due in 1 year or less	$ 12,000	$ 12,000	$ 1,792,000	$ 1,794,000	Due in 1 year or less	$ 4,000	$ 4,000	$ 1,346,000	$ 1,343,000
Due in 1 to 5 years	Due in 1 to 5 years	3,676,000	3,576,000	14,852,000	14,738,000	Due in 1 to 5 years	3,640,000	3,427,000	15,235,000	14,644,000

Due in 5 to 10 years	Due in 5 to 10 years	18,172,000	15,551,000	72,240,000	69,510,000	Due in 5 to 10 years	18,064,000	14,436,000	75,492,000	68,704,000
Due after 10 years	Due after 10 years	321,389,000	282,598,000	290,809,000	249,908,000	Due after 10 years	321,891,000	265,401,000	289,833,000	229,105,000
		$ 343,249,000	$ 301,737,000	$ 379,693,000	$ 335,950,000		$ 343,599,000	$ 283,268,000	$ 381,906,000	$ 313,796,000

At June 30, 2023 September 30, 2023, securities with a carrying value of $329,615,000 $383,946,000 were pledged to secure public deposits, repurchase agreements, and for other purposes as required by law. This compares to securities with a carrying value of $350,411,000 as of December 31, 2022 and $318,833,000 $343,677,000 at June 30, 2022 September 30, 2022, pledged for the same purposes.

Gains and losses on the sale of securities are computed by subtracting the amortized cost at the time of sale from the security's selling price, net of accrued interest to be received. The following table shows securities gains and losses for the six nine months and quarters ended June 30, 2023 September 30, 2023 and 2022:

		For the six months ended June 30,		For the quarter ended June 30,			For the nine months ended September 30,		For the quarter ended September 30,	
		2023	2022	**2023**	2022		**2023**	2022	**2023**	2022
Proceeds from sales of securities	Proceeds from sales of securities	**$ —**	$ —	**$ —**	$ —	Proceeds from sales of securities	**$ —**	$ 1,301,000	**$ —**	$ 1,301,000
Gross realized gains	Gross realized gains	**—**	2,000	**—**	—	Gross realized gains	**—**	8,000	**—**	6,000
Gross realized losses	Gross realized losses	**—**	(1,000)	**—**	(1,000)	Gross realized losses	**—**	(1,000)	**—**	(1,000)
Net gain (loss)	Net gain (loss)	**$ —**	$ 1,000	**$ —**	$ (1,000)	Net gain (loss)	**$ —**	$ 7,000	**$ —**	$ 5,000
Related income taxes	Related income taxes	**$ —**	$ —	**$ —**	$ —	Related income taxes	**$ —**	$ 1,000	**$ —**	$ 1,000

As of June 30, 2023 September 30, 2023, there were 869 941 securities with unrealized losses held in the Company's portfolio. The Company has the ability and intent to hold its securities which are in an unrealized loss position until a recovery of their amortized cost, which may be at maturity.

The following table summarizes debt securities in an unrealized loss position for which an allowance for credit losses has not been recorded at June 30, 2023 September 30, 2023, aggregated by major security type and length of time in a continuous unrealized loss position:

		Less than 12 months		12 months or more		Total			Less than 12 months		12 months or mo	
		Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses		Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrea Loss
U.S. Government-sponsored agencies		$ 1,981,000	$ (19,000)	$ 47,330,000	$ (16,799,000)	$ 49,311,000	$ (16,818,000)					
U.S. Treasury & Agency securities								U.S. Treasury & Agency securities	$11,842,000	$ (40,000)	$ 44,577,000	$ (19,5
Mortgage-backed securities	Mortgage-backed securities	22,083,000	(1,435,000)	241,009,000	(51,489,000)	263,092,000	(52,924,000)	Mortgage-backed securities	18,017,000	(441,000)	238,150,000	(63,8
State and political subdivisions	State and political subdivisions	66,096,000	(1,995,000)	149,378,000	(34,367,000)	215,474,000	(36,362,000)	State and political subdivisions	66,583,000	(6,675,000)	147,818,000	(49,7
Asset-backed securities	Asset-backed securities	—	—	1,516,000	(47,000)	1,516,000	(47,000)	Asset-backed securities	—	—	1,510,000	

Corporate securities	Corporate securities	7,545,000	(1,955,000)	14,045,000	(1,955,000)	21,590,000	(3,910,000)	Corporate securities	—	—	21,677,000	(3,82
		$97,705,000	$(5,404,000)	$453,278,000	$(104,657,000)	$550,983,000	$(110,061,000)		$96,442,000	$(7,156,000)	$453,732,000	$(136,97

As of December 31, 2022, there were 869 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which 300 had been temporarily impaired for 12 months or more.

Information regarding securities temporarily impaired as of December 31, 2022 is summarized below:

		Less than 12 months		**12 months or more**		**Total**			**Less than 12 months**		**12 months or r**	
		Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses		Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Un L
U.S. Government-sponsored agencies		$ 4,804,000	$ (675,000)	$ 41,965,000	$(16,680,000)	$ 46,769,000	$ (17,355,000)					
U.S. Treasury & Agency securities								U.S. Treasury & Agency securities	$ 4,804,000	$ (675,000)	$ 41,965,000	$(16
Mortgage-backed securities	Mortgage-backed securities	73,509,000	(6,486,000)	197,102,000	(47,353,000)	270,611,000	(53,839,000)	Mortgage-backed securities	73,509,000	(6,486,000)	197,102,000	(47
State and political subdivisions	State and political subdivisions	149,517,000	(13,769,000)	67,932,000	(24,247,000)	217,449,000	(38,016,000)	State and political subdivisions	149,517,000	(13,769,000)	67,932,000	(24
Asset-backed securities	Asset-backed securities	3,495,000	(53,000)	—	—	3,495,000	(53,000)	Asset-backed securities	3,495,000	(53,000)	—	
Corporate securities	Corporate securities	19,857,000	(2,143,000)	3,160,000	(340,000)	23,017,000	(2,483,000)	Corporate securities	19,857,000	(2,143,000)	3,160,000	(
		$251,182,000	$(23,126,000)	$310,159,000	$(88,620,000)	$561,341,000	$(111,746,000)		$251,182,000	$(23,126,000)	$310,159,000	$(88

As of June 30, 2022 September 30, 2022, there were 773 912 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which 83 138 had been temporarily impaired for 12 months or more.

Information regarding securities temporarily impaired as of June 30, 2022 September 30, 2022 is summarized below:

		Less than 12 months		**12 months or more**		**Total**			**Less than 12 months**		**12 months or m**	
		Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses		Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unre Lo
U.S. Government-sponsored agencies		$ 7,996,000	$ (631,000)	$ 43,782,000	$(11,713,000)	$ 51,778,000	$(12,344,000)					
U.S. Treasury & Agency securities								U.S. Treasury & Agency securities	$ 7,364,000	$ (1,264,000)	$ 39,452,000	$(16,(
Mortgage-backed securities	Mortgage-backed securities	173,507,000	(17,645,000)	112,781,000	(20,759,000)	286,288,000	(38,404,000)	Mortgage-backed securities	109,041,000	(13,868,000)	162,979,000	(41,9
State and political subdivisions	State and political subdivisions	189,673,000	(32,189,000)	5,178,000	(2,139,000)	194,851,000	(34,328,000)	State and political subdivisions	197,145,000	(44,277,000)	17,902,000	(9,(
Asset-backed securities	Asset-backed securities	4,038,000	(88,000)	—	—	4,038,000	(88,000)	Asset-backed securities	3,840,000	(32,000)	—	
Corporate securities	Corporate securities	17,956,000	(544,000)	—	—	17,956,000	(544,000)	Corporate securities	20,186,000	(1,814,000)	3,229,000	(2
		$393,170,000	$(51,097,000)	$161,741,000	$(34,611,000)	$554,911,000	$(85,708,000)		$337,576,000	$(61,255,000)	$223,562,000	$(67,2

Credit Quality Indicators: Agency-backed and government-sponsored enterprise securities have a long history with no credit losses, including during times of severe stress. The principal and interest payments on agency-guaranteed debt is backed by the U.S. Government. Government-sponsored enterprises similarly guarantee principal and interest payments and carry an implicit guarantee from the U.S. Department of the Treasury. Additionally, government-sponsored enterprise securities are exceptionally liquid, readily marketable, and provide a substantial amount of price transparency and price parity, indicating a perception of zero credit losses. HTM municipal debt holdings are comprised primarily of high credit quality (rated A- or higher) state and municipal obligations. High credit quality state and municipal obligations have a history of zero to near-zero credit loss. HTM municipal debt holdings also include two unrated private activity bonds issued by well known customers of the Bank. These securities are regularly monitored as part of an overall credit relationship with the issuers; both issuers were in good standing as of June 30, 2023 September 30, 2023. HTM corporate debt holdings consist of thirteen 14 individual companies in the banking industry. Management conducts periodic reviews of the collectability of these securities taking into consideration such factors as the financial condition of the issuers; each were in good standing as of June 30, 2023 September 30, 2023.

The following table presents the activity in the ACL for held-to-maturity debt securities by major security type for the six nine months ended June 30, 2023 September 30, 2023:

		State and Political Subdivisions	Corporate Securities	Total		State and Political Subdivisions	Corporate Securities	Total
Allowance for credit losses:	Allowance for credit losses:				Allowance for credit losses:			
Beginning balance	Beginning balance	$ —	$ —	$ —	Beginning balance	$ —	$ —	$ —
Impact of adopting ASC 326	Impact of adopting ASC 326	229,000	209,000	438,000	Impact of adopting ASC 326	229,000	209,000	438,000
Credit loss expense (reduction)		(5,000)	(5,000)	(10,000)				
Credit loss expense (reduction)[1]					Credit loss expense (reduction)[1]	(17,000)	11,000	(6,000)
Securities charged-off	Securities charged-off	—	—	—	Securities charged-off	—	—	—
Recoveries	Recoveries	—	—	—	Recoveries	—	—	—
Total ending allowance balance	Total ending allowance balance	$ 224,000	$ 204,000	$ 428,000	Total ending allowance balance	$ 212,000	$ 220,000	$ 432,000

[1]Difference between total and amount reported on the Consolidated Statements of Income is due to rounding.

There was no ACL on U.S. Government-sponsored enterprise and agency securities as of June 30, 2023 September 30, 2023.

A security is considered to be past due once it is 30 days contractually past due under the terms of the agreement. As of June 30, 2023 September 30, 2023, none of the Company's HTM debt securities were past due or on non-accrual status.

During the third quarter of 2014, the Company transferred securities with a total amortized cost of $89,780,000 with a corresponding fair value of $89,757,000 from available for sale to held to maturity. The net unrealized loss, net of taxes, on these securities at the date of the transfer was $15,000. The net unrealized holding loss at the time of transfer continues to be reported in AOCI, net of tax and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the net unrealized loss reported in AOCI will offset the effect on interest income of the discount for the transferred securities. The remaining unamortized balance of the net unrealized losses for the securities transferred from available for sale to held to maturity was $59,000, $58,000, net of taxes, at June 30, 2023 September 30, 2023. This compares to $64,000 and $73,000, $67,000, net of taxes, at December 31, 2022 and June 30, 2022 September 30, 2022, respectively. These securities were transferred as a part of the Company's overall investment and balance sheet strategies.

The Bank is a member of the FHLBB, a cooperatively owned wholesale bank for housing and finance in the six New England States. As a requirement of membership in the FHLBB, the Bank must own a minimum required amount of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. The Bank uses the FHLBB for a portion of its wholesale funding needs. As of June 30, 2023 September 30, 2023 and 2022, and December 31, 2022, the Bank's investment in FHLBB stock totaled $4,190,000, $3,683,000 $2,823,000, $3,477,000 and $2,846,000, respectively. FHLBB stock is a non-marketable equity security and therefore is reported at cost, which equals par value.

The Bank is also a member of the FRBB. As a requirement for membership in the FRBB, the Bank must own a minimum required amount of FRBB stock. The Bank uses FRBB for certain correspondent banking services and maintains borrowing capacity at its discount window. The Bank's investment in FRBB stock totaled $1,037,000 at June 30, 2023 September 30, 2023 and 2022, and December 31, 2022.

The Company periodically evaluates its investment in FHLBB and FRBB stock for impairment based on, among other factors, the capital adequacy of the Banks and their overall financial condition. No impairment losses have been recorded through June 30, 2023 September 30, 2023. The Bank will continue to monitor its investment in these restricted equity securities.

Note 3 – Loans

Upon adoption of ASU 2016-13/ASC 326, the CECL standard, as described in Notes 4 and 16 of these financial statements, the Company updated the segmentation of its loan portfolio. The updates primarily consist of reporting what had been a single class, commercial real estate loans, as three classes - commercial real estate owner occupied, commercial real estate non-owner occupied, and commercial multi-family. In addition home equity installment loans which had previously been included in the residential term class are now included in the home equity revolving and term class. Loan data as of June 30, 2023 September 30, 2023 is reported herein with the new class structure while certain prior period data retains the prior class structure.

Loan Portfolio by Class: The following table shows the composition of the Company's loan portfolio by class of financing receivable as of June 30, 2023 September 30, 2023 and 2022 and at December 31, 2022:

		June 30, 2023		December 31, 2022		June 30, 2022			September 30, 2023		December 31, 2022		September 30, 2022	
Commercial	Commercial							Commercial						
Real estate owner occupied	Real estate owner occupied	**$ 301,320,000**	**14.6 %**	$ 256,623,000	13.4 %	$ 242,161,000	13.5 %	Real estate owner occupied	**$ 299,943,000**	**14.4 %**	$ 256,623,000	13.4 %	$ 251,410,000	13.6 %
Real estate non-owner occupied	Real estate non-owner occupied	**396,388,000**	**19.2 %**	363,660,000	19.0 %	306,471,000	17.2 %	Real estate non-owner occupied	**397,024,000**	**19.1 %**	363,660,000	19.0 %	315,514,000	17.0 %
Construction	Construction	**64,094,000**	**3.1 %**	93,907,000	4.9 %	128,927,000	7.2 %	Construction	**72,424,000**	**3.5 %**	93,907,000	4.9 %	129,036,000	6.9 %
C&I	C&I	**351,854,000**	**17.1 %**	319,359,000	16.7 %	275,714,000	15.4 %	C&I	**350,596,000**	**16.9 %**	319,359,000	16.7 %	310,110,000	16.7 %
Multifamily	Multifamily	**93,124,000**	**4.5 %**	79,057,000	4.1 %	68,856,000	3.9 %	Multifamily	**91,041,000**	**4.4 %**	79,057,000	4.1 %	71,784,000	3.9 %
Municipal	Municipal	**58,252,000**	**2.8 %**	40,619,000	2.1 %	46,835,000	2.6 %	Municipal	**58,447,000**	**2.8 %**	40,619,000	2.1 %	48,702,000	2.6 %
Residential	Residential							Residential						
Term	Term	**645,127,000**	**31.4 %**	597,404,000	31.2 %	571,111,000	31.9 %	Term	**660,049,000**	**31.7 %**	597,404,000	31.2 %	581,066,000	31.3 %
Construction	Construction	**30,812,000**	**1.5 %**	49,907,000	2.6 %	44,011,000	2.5 %	Construction	**28,986,000**	**1.4 %**	49,907,000	2.6 %	41,631,000	2.2 %
Home Equity	Home Equity							Home Equity						
Revolving and term	Revolving and term	**99,666,000**	**4.8 %**	93,075,000	4.9 %	82,913,000	4.6 %	Revolving and term	**101,980,000**	**4.9 %**	93,075,000	4.9 %	87,903,000	4.7 %
Consumer	Consumer	**20,316,000**	**1.0 %**	21,063,000	1.1 %	21,356,000	1.2 %	Consumer	**19,370,000**	**0.9 %**	21,063,000	1.1 %	20,819,000	1.1 %
Total	Total	**$ 2,060,953,000**	**100.0 %**	$ 1,914,674,000	100.0 %	$ 1,788,355,000	100.0 %	Total	**$ 2,079,860,000**	**100.0 %**	$ 1,914,674,000	100.0 %	$ 1,857,975,000	100.0 %

Loan balances include net deferred loan costs of $10,824,000 $11,213,000 as of June 30, 2023 September 30, 2023, $10,132,000 as of December 31, 2022, and $9,738,000 $9,978,000 as of June 30, 2022 September 30, 2022. Net deferred loan costs have increased from a year ago and year-to-date due to loan origination unit volume over the period. Loan balances in the Residential Term segment also include a valuation adjustment for fair value swaps hedged by certain loans in the portfolio. This adjustment subtracted $705,000 from the loan balances as of September 30, 2023; there was no such adjustment as of December 31, 2022 or September 30, 2022.

Pursuant to collateral agreements, qualifying first mortgage loans and commercial real estate loans, which totaled $541,345,000 $525,904,000 at June 30, 2023 September 30, 2023, were used to collateralize borrowings from the FHLB. FHLBB. This compares to qualifying loans which totaled $475,233,000 at December 31, 2022, and $461,756,000 $464,069,000 at June 30, 2022 September 30, 2022. In addition, commercial, residential construction and home equity loans totaling $331,836,000 $332,657,000 at June 30, 2023 September 30, 2023, $338,636,000 at December 31, 2022, and $345,798,000 $327,551,000 at June 30, 2022 September 30, 2022, were used to collateralize a standby line of credit at the FRB. FRBB. In September 2022 the Bank sold a block of 41 mixed performing residential mortgage loans. This block of loans carried general ledger balances that totaled $5.2 million and included a number of past-due, non-accrual, and TDR loans. The impact of the sale on the portfolio is included in the information presented herein for the prior year.

Past Due Loans: For all loan classes, loans over 30 days past due are considered delinquent. Information on the past-due status of loans by class of financing receivable as of June 30, 2023 September 30, 2023, is presented in the following table:

		30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing		30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	
Commercial	Commercial								Commercial						
Real estate owner occupied	Real estate owner occupied	$ 37,000	$ —	$ —	$ 37,000	$ 301,283,000	$ 301,320,000	$ —	Real estate owner occupied	$ —	$ —	$ —	$ —	$ 299,943,000	$ 29
Real estate non-owner occupied	Real estate non-owner occupied	—	—	—	—	396,388,000	396,388,000	—	Real estate non-owner occupied	—	—	—	—	397,024,000	39
Construction	Construction	—	—	8,000	8,000	64,086,000	64,094,000	—	Construction	—	7,000	8,000	15,000	72,409,000	7
C&I	C&I	346,000	43,000	147,000	536,000	351,318,000	351,854,000	—	C&I	349,000	100,000	221,000	670,000	349,926,000	35
Multifamily	Multifamily	—	—	—	—	93,124,000	93,124,000	—	Multifamily	—	—	—	—	91,041,000	9
Municipal	Municipal	—	—	—	—	58,252,000	58,252,000	—	Municipal	—	—	—	—	58,447,000	5
Residential	Residential								Residential						
Term	Term	58,000	1,205,000	376,000	1,639,000	643,488,000	645,127,000	298,000	Term	39,000	106,000	578,000	723,000	659,326,000	66

Construction	Construction	—	—	—	—	30,812,000	30,812,000	—	Construction	—	62,000	—	62,000	28,924,000	2
Home equity	Home equity								Home equity						
Revolving and term	Revolving and term	177,000	—	193,000	370,000	99,296,000	99,666,000	7,000	Revolving and term	79,000	—	179,000	258,000	101,722,000	10
Consumer	Consumer	202,000	36,000	14,000	252,000	20,064,000	20,316,000	13,000	Consumer	210,000	39,000	11,000	260,000	19,110,000	1
Total	Total	$820,000	$1,284,000	$738,000	$2,842,000	$2,058,111,000	$2,060,953,000	$318,000	Total	$677,000	$314,000	$997,000	$1,988,000	$2,077,872,000	$2,07

Information on the past-due status of loans by class of financing receivable as of December 31, 2022, is presented in the following table:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing
Commercial							
Real estate	$ —	$ 3,000	$ 190,000	$ 193,000	$ 699,147,000	$ 699,340,000	$ —
Construction	—	—	—	—	93,907,000	93,907,000	—
Other	118,000	23,000	85,000	226,000	319,133,000	319,359,000	34,000
Municipal	—	—	—	—	40,619,000	40,619,000	—
Residential							
Term	135,000	33,000	284,000	452,000	596,952,000	597,404,000	118,000
Construction	—	—	—	—	49,907,000	49,907,000	—
Home equity line of credit	241,000	29,000	151,000	421,000	92,654,000	93,075,000	86,000
Consumer	131,000	33,000	3,000	167,000	20,896,000	21,063,000	3,000
Total	$ 625,000	$ 121,000	$ 713,000	$ 1,459,000	$ 1,913,215,000	$ 1,914,674,000	$ 241,000

Information on the past-due status of loans by class of financing receivable as of June 30, 2022 September 30, 2022, is presented in the following table:

		30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing		30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	
Commercial	Commercial								Commercial						
Real estate	Real estate	$ —	$ 6,000	$ 191,000	$ 197,000	$ 617,291,000	$ 617,488,000	$ —	Real estate	$ —	$ 4,000	$191,000	$ 195,000	$ 638,513,000	$ 6
Construction	Construction	—	—	—	—	128,927,000	128,927,000	—	Construction	—	—	—	—	129,036,000	1
Other	Other	448,000	76,000	83,000	607,000	275,107,000	275,714,000	—	Other	172,000	16,000	83,000	271,000	309,839,000	3
Municipal	Municipal	—	—	—	—	46,835,000	46,835,000	—	Municipal	—	—	—	—	48,702,000	
Residential	Residential								Residential						
Term	Term	343,000	497,000	1,195,000	2,035,000	569,076,000	571,111,000	72,000	Term	79,000	77,000	166,000	322,000	580,744,000	5
Construction	Construction	—	—	—	—	44,011,000	44,011,000	—	Construction	—	—	—	—	41,631,000	
Home equity line of credit	Home equity line of credit	186,000	—	—	186,000	82,727,000	82,913,000	—	Home equity line of credit	473,000	29,000	—	502,000	87,401,000	
Consumer	Consumer	54,000	64,000	4,000	122,000	21,234,000	21,356,000	4,000	Consumer	143,000	28,000	—	171,000	20,648,000	
Total	Total	$1,031,000	$643,000	$1,473,000	$3,147,000	$1,785,208,000	$1,788,355,000	$76,000	Total	$867,000	$154,000	$440,000	$1,461,000	$1,856,514,000	$1,8

Non-Accrual Loans: For all classes, loans are placed on non-accrual status when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when principal and interest is 90 days or more past due unless the loan is both well secured and in the process of collection (in which case the loan may continue to accrue interest in spite of its past due status). A loan is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. A loan is "in the process of collection" if collection of the loan is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

Cash payments received on non-accrual loans are applied to reduce the loan's principal balance until the remaining principal balance is deemed collectible, after which interest is recognized when collected. As a general rule, a loan may be restored to accrual status when payments are current for a substantial period of time, generally six months, and repayment of the remaining contractual amounts is expected, or when it otherwise becomes well secured and in the process of collection.

The following table presents the amortized costs basis of loans on nonaccrual status as of June 30, 2023 September 30, 2023, December 31, 2022 and June 30, 2022 September 30, 2022:

	June 30, 2023	December 31, 2022	June 30, 2022	**September 30, 2023**	December 31, 2022	September 30, 2022

		Nonaccrual with Allowance for Credit Loss	Nonaccrual with no Allowance for Credit Loss	Total Nonaccrual				Nonaccrual with Allowance for Credit Loss	Nonaccrual with no Allowance for Credit Loss	Total Nonaccrual		
Commercial	Commercial						Commercial					
Real estate owner occupied	Real estate owner occupied	**$ —**	**$ —**	**$ —**	$ 193,000	$ 197,000	Real estate owner occupied	**$ —**	**$ —**	**$ —**	$ 193,000	$ 195,000
Real estate non-owner occupied	Real estate non-owner occupied	**—**	**—**	**—**	—	—	Real estate non-owner occupied	**—**	**—**	**—**	—	—
Construction	Construction	**—**	**30,000**	**30,000**	23,000	25,000	Construction	**—**	**29,000**	**29,000**	23,000	25,000
C&I	C&I	**372,000**	**283,000**	**655,000**	663,000	953,000	C&I	**363,000**	**351,000**	**714,000**	663,000	756,000
Multifamily	Multifamily	**—**	**—**	**—**	—	—	Multifamily	**—**	**—**	**—**	—	—
Municipal	Municipal	**—**	**—**	**—**	—	—	Municipal	**—**	**—**	**—**	—	—
Residential	Residential						Residential					
Term	Term	**—**	**533,000**	**533,000**	572,000	3,383,000	Term	**304,000**	**1,016,000**	**1,320,000**	572,000	637,000
Construction	Construction	**—**	**—**	**—**	—	—	Construction	**—**	**—**	**—**	—	—
Home equity	Home equity						Home equity					
Revolving and term	Revolving and term	**—**	**458,000**	**458,000**	304,000	254,000	Revolving and term	**—**	**490,000**	**490,000**	304,000	247,000
Consumer	Consumer	**—**	**—**	**—**	—	—	Consumer	**—**	**—**	**—**	—	—
Total	Total	**$ 372,000**	**$ 1,304,000**	**$ 1,676,000**	$ 1,755,000	$ 4,812,000	Total	**$ 667,000**	**$ 1,886,000**	**$ 2,553,000**	$ 1,755,000	$ 1,860,000

Individually Analyzed Loans: Individually analyzed loans include loans placed on non-accrual and loans reported as TDR prior to adoption of ASU 2022-02 Troubled Debt Restructurings and Vintage Disclosures, with balances of $250,000 or more. These loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. If the measure of an individually analyzed loan is lower than the recorded investment in the loan and estimated selling costs, a specific reserve is established for the difference, or, in certain situations, if the measure of an individually analyzed loan is lower than the recorded investment in the loan and estimated selling costs, the difference is written off.

The following table presents the amortized cost basis of collateral-dependent loans as of June 30, 2023 September 30, 2023 by collateral type:

		Collateral Type				Collateral Type			
		Commercial Real Estate	Residential Real Estate	Total		Commercial Real Estate	Residential Real Estate	Total	
Commercial	Commercial				Commercial				
Real estate owner occupied	Real estate owner occupied	$ —	$ —	$ —	Real estate owner occupied	$ —	$ —	$ —	
Real estate non-owner occupied	Real estate non-owner occupied	725,000	—	725,000	Real estate non-owner occupied		—	—	
Construction	Construction		—	—	Construction		—	—	
C&I	C&I		—	—	C&I		—	—	
Multifamily						Multifamily		—	—
Municipal						Municipal		—	—
Residential	Residential				Residential				
Term	Term	—	385,000	385,000	Term	—	687,000	687,000	
Construction						Construction		—	—
Home Equity	Home Equity				Home Equity				
Revolving and term	Revolving and term		—	—	Revolving and term		—	—	
Consumer						Consumer		—	—
Total	Total	$ 725,000	$ 385,000	$ 1,110,000	Total	$ —	$ 687,000	$ 687,000	

Collateral-dependent loans are loans for which the repayment is expected to be provided substantially by the underlying collateral and there are no other available and reliable sources of repayment.

A breakdown of individually analyzed loans by class of financing receivable as of and for the period ended June 30, 2023 September 30, 2023 is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	For the six months ended June 30, 2023 Average Recorded Investment	For the six months ended June 30, 2023 Recognized Interest Income	For the quarter ended June 30, 2023 Average Recorded Investment	For the quarter ended June 30, 2023 Recognized Interest Income
With No Related Allowance							
Commercial							
Real estate owner occupied	$ —	$ —	$ —	$ 214,000	$ —	$ 61,000	$ —
Real estate non-owner occupied	725,000	841,000	—	805,000	12,000	764,000	5,000
Construction	—	—	—	235,000	—	8,000	—
C&I	—	—	—	108,000	—	39,000	—
Multifamily	—	—	—	—	—	—	—
Municipal	—	—	—	—	—	—	—
Residential							
Term	385,000	412,000	—	1,273,000	7,000	853,000	5,000
Construction	—	—	—	—	—	—	—
Home Equity							
Revolving and term	—	—	—	357,000	—	179,000	—
Consumer	—	—	—	—	—	—	—
	$ 1,110,000	$ 1,253,000	$ —	$ 2,992,000	$ 19,000	$ 1,904,000	$ 10,000
With an Allowance Recorded							
Commercial							
Real estate owner occupied	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate non-owner occupied	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—
C&I	372,000	458,000	157,000	571,000	—	483,000	—
Multifamily	—	—	—	—	—	—	—
Municipal	—	—	—	—	—	—	—
Residential							
Term	514,000	514,000	29,000	991,000	12,000	751,000	6,000
Construction	—	—	—	—	—	—	—
Home Equity							
Revolving and term	—	—	—	14,000	—	7,000	—
Consumer	—	—	—	—	—	—	—
	$ 886,000	$ 972,000	$ 186,000	$ 1,576,000	$ 12,000	$ 1,241,000	$ 6,000
Total							
Commercial							
Real estate owner occupied	$ —	$ —	$ —	$ 214,000	$ —	$ 61,000	$ —

	Recorded Investment	Unpaid Principal Balance	Related Allowance	For the nine months ended September 30, 2023 Average Recorded Investment	For the nine months ended September 30, 2023 Recognized Interest Income	For the quarter ended September 30, 2023 Average Recorded Investment	For the quarter ended September 30, 2023 Recognized Interest Income
With No Related Allowance							
Commercial							
Real estate owner occupied	$ —	$ —	$ —	$ 143,000	$ —	$ —	$ —
Real estate non-owner occupied	—	—	—	537,000	—	—	(12,000)
Construction	—	—	—	157,000	—	—	—
C&I	—	—	—	72,000	—	—	—
Multifamily	—	—	—	—	—	—	—
Municipal	—	—	—	—	—	—	—
Residential							
Term	384,000	411,000	—	977,000	15,000	384,000	8,000
Construction	—	—	—	—	—	—	—
Home Equity							
Revolving and term	—	—	—	238,000	—	—	—
Consumer	—	—	—	—	—	—	—
	$ 384,000	$ 411,000	$ —	$ 2,124,000	$ 15,000	$ 384,000	$ (4,000)
With an Allowance Recorded							
Commercial							
Real estate owner occupied	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate non-owner occupied	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—
C&I	363,000	456,000	225,000	502,000	—	366,000	—
Multifamily	—	—	—	—	—	—	—
Municipal	—	—	—	—	—	—	—
Residential							
Term	566,000	573,000	41,000	878,000	10,000	697,000	(2,000)
Construction	—	—	—	—	—	—	—
Home Equity							
Revolving and term	—	—	—	9,000	—	—	—
Consumer	—	—	—	—	—	—	—
	$ 929,000	$ 1,029,000	$ 266,000	$ 1,389,000	$ 10,000	$ 1,063,000	$ (2,000)
Total							
Commercial							
Real estate owner occupied	$ —	$ —	$ —	$ 143,000	$ —	$ —	$ —

Real estate non-owner occupied	Real estate non-owner occupied	725,000	841,000	—	805,000	12,000	764,000	5,000	Real estate non-owner occupied	—	—	—	537,000	—	—	(12,000)
Construction	Construction	—	—	—	235,000	—	8,000	—	Construction	—	—	—	157,000	—	$ —	—
C&I	C&I	372,000	458,000	157,000	679,000	—	522,000	—	C&I	363,000	456,000	225,000	574,000	—	366,000	—
Multifamily	Multifamily	—	—	—	—	—	—	—	Multifamily	—	—	—	—	—	—	—
Municipal	Municipal	—	—	—	—	—	—	—	Municipal	—	—	—	—	—	—	—
Residential	Residential								Residential							
Term	Term	899,000	926,000	29,000	2,264,000	19,000	1,604,000	11,000	Term	950,000	984,000	41,000	1,855,000	25,000	1,081,000	6,000
Construction	Construction	—	—	—	—	—	—	—	Construction	—	—	—	—	—	—	—
Home Equity	Home Equity								Home Equity							
Revolving and term	Revolving and term	—	—	—	371,000	—	186,000	—	Revolving and term	—	—	—	247,000	—	—	—
Consumer	Consumer	—	—	—	—	—	—	—	Consumer	—	—	—	—	—	—	—
		$ 1,996,000	$ 2,225,000	$ 186,000	$ 4,568,000	$ 31,000	$ 3,145,000	$ 16,000		$ 1,313,000	$ 1,440,000	$ 266,000	$ 3,513,000	$ 25,000	$ 1,447,000	$ (6,000)

Substantially all interest income recognized on individually analyzed loans for all classes of financing receivables was recognized on a cash basis as received.

A breakdown of individually analyzed loans by class of financing receivable as of and for the year ended December 31, 2022 is presented in the following table:

		Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income		Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance												
Commercial	Commercial						Commercial					
Real estate	Real estate	$ 1,236,000	$ 1,532,000	$ —	$ 1,440,000	$ 50,000	Real estate	$ 1,236,000	$ 1,532,000	$ —	$ 1,440,000	$ 50,000
Construction	Construction	685,000	687,000	—	81,000	35,000	Construction	685,000	687,000	—	81,000	35,000
Other	Other	301,000	348,000	—	408,000	13,000	Other	301,000	348,000	—	408,000	13,000
Municipal	Municipal	—	—	—	—	—	Municipal	—	—	—	—	—
Residential	Residential						Residential					
Term	Term	1,833,000	2,035,000	—	4,507,000	56,000	Term	1,833,000	2,035,000	—	4,507,000	56,000
Construction	Construction	—	—	—	—	—	Construction	—	—	—	—	—
Home equity line of credit	Home equity line of credit	304,000	340,000	—	295,000	—	Home equity line of credit	304,000	340,000	—	295,000	—
Consumer	Consumer	—	—	—	1,000	—	Consumer	—	—	—	1,000	—
		$ 4,359,000	$ 4,942,000	$ —	$ 6,732,000	$ 154,000		$ 4,359,000	$ 4,942,000	$ —	$ 6,732,000	$ 154,000
With an Allowance Recorded												
Commercial	Commercial						Commercial					
Real estate	Real estate	$ —	$ —	$ —	$ 11,000	$ —	Real estate	$ —	$ —	$ —	$ 11,000	$ —
Construction	Construction	—	—	—	606,000	—	Construction	—	—	—	606,000	—
Other	Other	545,000	647,000	298,000	693,000	—	Other	545,000	647,000	298,000	693,000	—
Municipal	Municipal	—	—	—	—	—	Municipal	—	—	—	—	—
Residential	Residential						Residential					
Term	Term	1,256,000	1,259,000	100,000	1,486,000	50,000	Term	1,256,000	1,259,000	100,000	1,486,000	50,000
Construction	Construction	—	—	—	—	—	Construction	—	—	—	—	—
Home equity line of credit	Home equity line of credit	—	—	—	8,000	—	Home equity line of credit	—	—	—	8,000	—
Consumer	Consumer	—	—	—	—	—	Consumer	—	—	—	—	—
		$ 1,801,000	$ 1,906,000	$ 398,000	$ 2,804,000	$ 50,000		$ 1,801,000	$ 1,906,000	$ 398,000	$ 2,804,000	$ 50,000
Total												
Commercial	Commercial						Commercial					
Real estate	Real estate	$ 1,236,000	$ 1,532,000	—	$ 1,451,000	$ 50,000	Real estate	$ 1,236,000	$ 1,532,000	$ —	$ 1,451,000	$ 50,000
Construction	Construction	685,000	687,000	—	687,000	35,000	Construction	685,000	687,000	—	687,000	35,000
Other	Other	846,000	995,000	298,000	1,101,000	13,000	Other	846,000	995,000	298,000	1,101,000	13,000

Municipal	Municipal	—	—	—	—	—	Municipal	—	—	—	—	—
Residential	Residential						Residential					
Term	Term	3,089,000	3,294,000	100,000	5,993,000	106,000	Term	3,089,000	3,294,000	100,000	5,993,000	106,000
Construction	Construction	—	—	—	—	—	Construction	—	—	—	—	—
Home equity line of credit	Home equity line of credit	304,000	340,000	—	303,000	—	Home equity line of credit	304,000	340,000	—	303,000	—
Consumer	Consumer	—	—	—	1,000	—	Consumer	—	—	—	1,000	—
		$ 6,160,000	$ 6,848,000	$ 398,000	$ 9,536,000	$ 204,000		$ 6,160,000	$ 6,848,000	$ 398,000	$ 9,536,000	$ 204,000

A breakdown of individually analyzed loans by class of financing receivable as of and for the period ended June 30, 2022 September 30, 2022 is presented in the following table:

					For the six months ended June 30, 2022		**For the quarter ended June 30, 2022**						**For the nine months ended September 30, 2022**		**For t Sep**
		Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income		Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income	Ave Rec Inves
With No Related Allowance															
Commercial	Commercial								Commercial						
Real estate	Real estate	$ 1,352,000	$ 1,661,000	$ —	$ 1,588,000	$ 28,000	$ 1,600,000	$ 15,000	Real estate	$1,295,000	$1,607,000	$ —	$ 1,497,000	$ 42,000	$1,31
Construction	Construction	25,000	27,000	—	26,000	—	26,000	—	Construction	25,000	27,000	—	26,000	—	2
Other	Other	416,000	471,000	—	446,000	8,000	435,000	4,000	Other	399,000	459,000	—	432,000	10,000	40
Municipal	Municipal	—	—	—	—	—	—	—	Municipal	—	—	—	—	—	
Residential	Residential								Residential						
Term	Term	6,053,000	7,189,000	—	5,738,000	49,000	5,682,000	26,000	Term	1,912,000	2,139,000	—	5,380,000	40,000	4,66
Construction	Construction	—	—	—	—	—	—	—	Construction	—	—	—	—	—	
Home equity line of credit	Home equity line of credit	254,000	283,000	—	323,000	—	324,000	—	Home equity line of credit	247,000	279,000	—	299,000	—	24
Consumer	Consumer	1,000	1,000	—	1,000	—	—	—	Consumer	—	—	—	1,000	—	
		$ 8,101,000	$ 9,632,000	$ —	$ 8,122,000	$ 85,000	$ 8,067,000	$ 45,000		$3,878,000	$4,511,000	$ —	$ 7,635,000	$ 92,000	$6,65
With an Allowance Recorded															
Commercial	Commercial								Commercial						
Real estate	Real estate	$ —	$ —	$ —	$ 21,000	$ —	$ —	$ —	Real estate	$ —	$ —	$ —	$ 14,000	$ —	$
Construction	Construction	661,000	661,000	8,000	661,000	11,000	661,000	5,000	Construction	661,000	661,000	6,000	661,000	27,000	66
Other	Other	744,000	843,000	502,000	778,000	—	761,000	—	Other	552,000	647,000	315,000	745,000	—	67
Municipal	Municipal	—	—	—	—	—	—	—	Municipal	—	—	—	—	—	
Residential	Residential								Residential						
Term	Term	1,449,000	1,483,000	103,000	1,650,000	25,000	1,566,000	13,000	Term	1,264,000	1,267,000	99,000	1,562,000	34,000	1,38
Construction	Construction	—	—	—	—	—	—	—	Construction	—	—	—	—	—	
Home equity line of credit	Home equity line of credit	—	—	—	17,000	—	—	—	Home equity line of credit	—	—	—	11,000	—	
Consumer	Consumer	—	—	—	—	—	—	—	Consumer	—	—	—	—	—	
		$ 2,854,000	$ 2,987,000	$613,000	$ 3,127,000	$ 36,000	$ 2,988,000	$ 18,000		$2,477,000	$2,575,000	$420,000	$ 2,993,000	$ 61,000	$2,72
Total															
Commercial	Commercial								Commercial						
Real estate	Real estate	$ 1,352,000	$ 1,661,000	$ —	$ 1,609,000	$ 28,000	$ 1,600,000	$ 15,000	Real estate	$1,295,000	$1,607,000	$ —	$ 1,511,000	$ 42,000	$1,31
Construction	Construction	686,000	688,000	8,000	687,000	11,000	687,000	5,000	Construction	686,000	688,000	6,000	687,000	27,000	68
Other	Other	1,160,000	1,314,000	502,000	1,224,000	8,000	1,196,000	4,000	Other	951,000	1,106,000	315,000	1,177,000	10,000	1,08
Municipal	Municipal	—	—	—	—	—	—	—	Municipal	—	—	—	—	—	
Residential	Residential								Residential						
Term	Term	7,502,000	8,672,000	103,000	7,388,000	74,000	7,248,000	39,000	Term	3,176,000	3,406,000	99,000	6,942,000	74,000	6,05
Construction	Construction	—	—	—	—	—	—	—	Construction	—	—	—	—	—	

Home equity line of credit	Home equity line of credit	254,000	283,000	—	340,000	—	324,000	—	Home equity line of credit	247,000	279,000	—	310,000	—	24
Consumer	Consumer	1,000	1,000	—	1,000	—	—	—	Consumer	—	—	—	1,000	—	
		$10,955,000	$12,619,000	$613,000	$11,249,000	$ 121,000	$11,055,000	$ 63,000		$6,355,000	$7,086,000	$420,000	$10,628,000	$ 153,000	$9,38

Loan Modifications: ASU 2022-02 amends ASC 326 for entities that have adopted ASU 2016-13, the CECL standard, such as the Company. ASU 2022-02 eliminates the accounting guidance for TDRs and introduces new guidance for enhanced reporting of certain loan modifications to borrowers experiencing financial difficulty. Loan modifications may include interest rate reduction, term extension, payment deferral, principle forgiveness or a combination thereof. It is the intent to minimize future losses while providing borrowers with financial relief.

The following table represents loan modifications made to borrowers experiencing financial difficulty by modification type and class of financing receivable, during the three months ended June 30, 2023 September 30, 2023:

	Term Extension	
	Amortized Cost Basis at June 30, 2023	% of Total Class of Financing Receivable
C&I	$4,000	0.001%
Total	$4,000	

	Payment Deferral				
		Amortized Cost Basis at September 30, 2023		% of Total Class of Financing Receivable	
Commercial					
Real estate owner occupied	$	504,000		0.17	%
C&I		19,000		0.01	%
	$	523,000		0.03	%

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty for the three months ended June 30, 2023 September 30, 2023:

	Term Extension Payment Deferral
	Financial Effect
C&I Commercial	Extended Term 90 days
Real estate owner occupied	Temporary payment accommodation, payments deferred to end of loan.
C&I	

The Company monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified during the six nine months ended June 30, 2023 September 30, 2023:

	Payment Status (Amortized Cost Basis)						
	Current		30-59 Days Past Due		60-89 Days Past Due		90+ Days Past Due
C&I	$253,000	$	—	$	—	$	—
Total	$253,000	$	—	$	—	$	—

	Payment Status (Amortized Cost Basis)							
		Current		30-59 Days Past Due		60-89 Days Past Due		90+ Days Past Due
Commercial								
Real estate owner occupied	$	503,000	$	—	$	—	$	—
C&I		220,000		40,000		—		—
Total	$	723,000	$	40,000	$	—	$	—

Troubled Debt Restructured: Prior to adoption of ASU 2022-02, the Company evaluated loan modifications and other transactions to determine if classification as a TDR was necessary. A TDR constitutes a restructuring of debt if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan was to be classified as a TDR, Management evaluated a loan based upon the following criteria:

- The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender; and
- The Company has granted a concession; common concession types include maturity date extension, interest rate adjustments to below market pricing, and deferment of payments.

As of December 31, 2022, the company had 29 loans with a balance of $4,744,000 that were classified as TDRs. The impairment carried as a specific reserve in the allowance for loan losses is calculated by present valuing the expected cash flows on the loan at the original interest rate, or, for collateral-dependent loans, using the fair value of the collateral less costs to sell.

The following table shows TDRs by class and the specific reserve as of December 31, 2022:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	5	$ 1,044,000	$ —
Construction	1	661,000	—
Other	3	361,000	81,000
Municipal	—	—	—
Residential			
Term	20	2,678,000	100,000
Construction	—	—	—
Home equity line of credit	—	—	—
Consumer	—	—	—
	29	$ 4,744,000	$ 181,000

As of December 31, 2022, one of the loans classified as TDR with a total balance of $97,000 was more than 30 days past due and was not placed on TDR status in the previous 12 months. The following table shows past-due TDRs by class and the associated specific reserves included in the allowance for loan losses as of December 31, 2022:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	—	$ —	$ —
Construction	—	—	—
Other	1	97,000	—
Municipal	—	—	—
Residential			
Term	—	—	—
Construction	—	—	—
Home equity line of credit	—	—	—
Consumer	—	—	—
	1	$ 97,000	$ —

For the year ended December 31, 2022, one loan was placed on TDR status. The following table shows this TDR by class and the associated specific reserves included in the allowance for loan losses as of December 31, 2022:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserves
Commercial				
Real estate	—	$ —	$ —	$ —
Construction	—	—	—	—
Other	—	—	—	—
Municipal	—	—	—	—
Residential				
Term	1	38,000	38,000	—

Construction	—	—	—	—
Home equity line of credit	—	—	—	—
Consumer	—	—	—	—
	1	$ 38,000	$ 38,000	$ —

As of December 31, 2022, Management was aware of four loans classified as TDRs that are involved in bankruptcy with an outstanding balance of $550,000. As of December 31, 2022, there were five loans with an outstanding balance of $339,000 that were classified as TDRs and were on non-accrual status, of which none were in the process of foreclosure.

Residential Mortgage Loans in Process of Foreclosure

As of June 30, 2023 September 30, 2023, there were no four mortgage loans collateralized by residential real estate in the process of foreclosure. foreclosure with a total balance of $459,000. This compares to two mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $166,000 as of December 31, 2022, and five mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $537,000 as of June 30, 2022 September 30, 2022.

Note 4. Allowance for Credit Losses

Upon adoption of ASC 326, the CECL standard, in the first quarter of 2023, the Company replaced the incurred loss model that recognized losses when it became probable that a credit loss would be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation amount that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. The ACL consists of three elements: (1) specific reserves for loans individually analyzed; (2) general reserves for each portfolio segment; and, (3) qualitative reserves. All outstanding loans are considered in evaluating the appropriateness of the allowance. Loans are segmented by common risk characteristics as delineated in the paragraph below. Prior to adoption of ASC 326, under the incurred loss methodology, the Company evaluated portfolio risk characteristics largely on loan purpose. The Company provides for loan losses through the allowance for credit losses which represents an estimated reserve for losses in the loan portfolio. To determine an appropriate level for general reserves, a discounted cash flow approach is applied to each portfolio segment implementing a probability of default and loss given default estimate based upon a number of factors including historical losses over an economic cycle, economic forecasts, loan prepayment speeds and curtailment rates. To determine an appropriate level for qualitative reserves, various factors are considered including underwriting policies, credit administration practices, experience, ability and depth of lending management, and economic factors not captured in the general reserve calculation. Adoption of ASC 326 added $6,210,000 to the Allowance for Credit Losses, recorded as a charge to retained earnings at January 1, 2023.

Loan Portfolio Composition & Risk Characteristics: The loan portfolio is segmented into ten classes and credit risk is evaluated separately in each class. Major risk characteristics relevant to each portfolio segment are as follows:

Commercial Real Estate Owner Occupied - commercial real estate owner occupied loans consist of mortgage loans to finance investments in real property such as retail space, offices, industrial buildings, hotels, educational facilities, and other specific or mixed use properties. Loans are typically written with amortizing payment structures. Collateral values are determined based on appraisals and evaluations in accordance with established policy and regulatory guidelines. Loans typically have a loan-to-value ratio of up to 80% based upon current valuation information at the time the loan is made, and are primarily paid by the cash flow generated from the real property, typically the operating entity of owner occupant. Risk factors typically include competitive market forces, net operating incomes of the operating entity, and overall economic demand. Loans in the recreational and tourism sector can be affected by weather conditions, such as unseasonably low winter snowfalls. Commercial real estate lending also carries a higher degree of environmental risk than other types of lending.

Commercial Real Estate Non-Owner Occupied - commercial real estate loans non-owner occupied share many of the purpose, loan structure and risk characteristics of owner-occupied commercial real estate. Repayment is generally reliant upon cash flow generated from tenants with risk factors also influenced by vacancy rates, cap rates, lease renewals, and underlying financial health of lessees.

Commercial Construction - commercial construction loans consist of loans to finance construction in a mix of owner- and non-owner occupied commercial real estate properties. Loans typically have construction periods of less than two years, and payment structures during the construction period are typically on an interest only basis, although principal payments may be established depending on the type of construction project being financed. During the construction phase, commercial construction loans are primarily paid by cash flow generated from the construction project or other operating cash flows from the borrower or guarantors, if applicable. Commercial construction loans will typically convert to permanent financing from the Company, or loan repayment may come from a third party source in the event that the Company will not be providing permanent term financing. Collateral valuation and loan-to-value guidelines follow those for commercial real estate loans. Commercial construction loans are impacted by factors similar to those for commercial real estate loans in addition to risks related to contractor financial capacity and ability to complete a project within acceptable time frames and within budget.

Commercial and Industry- C&I loans consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and or capital investment. C&I loans may be secured or unsecured; when secured, collateral generally consists of pledges of business assets including, but not limited to, accounts receivable, inventory, equipment, and/or other tangible and intangible assets. C&I loans are primarily paid by the operating cash flow of the borrower. A weakened economy, soft consumer spending, and the rising cost of labor or raw materials are examples of issues that can impact the credit quality in this segment.

Commercial Multifamily - multifamily loans share structure and risk characteristics with non-owner occupied commercial real estate; underlying collateral is residential in nature rather than commercial, consisting of properties with five or more units.

Municipal Loans - municipal loans are comprised of loans to municipalities in Maine for capitalized expenditures, construction projects, or tax anticipation notes. All municipal loans are considered either general obligations of the municipality collateralized by the taxing ability of the municipality for repayment of debt or have a pledge of specific revenues. The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

Residential Real Estate Term - residential term loans consist of residential real estate loans held in the Company's loan portfolio made to borrowers who demonstrate the ability to make scheduled payments with full consideration to underwriting factors. Borrower qualifications include favorable credit history combined with supportive income requirements and loan-to-value ratios within established policy and regulatory guidelines. Collateral values are determined based on appraisals and evaluations in accordance with established policy and regulatory guidelines. Residential loans typically have a loan-to-value ratio of up to 80% based on appraisal information at the time the loan is made. Collateral consists of mortgage liens on one-to four-family residential properties. Loans are offered with fixed or adjustable rates with amortization terms of up to thirty years. The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

Residential Real Estate Construction - residential construction loans typically consist of loans for the purpose of constructing single family residences to be owned and occupied by the borrower. Borrower qualifications include favorable credit history combined with supportive income requirements and loan-to-value ratios within established policy and regulatory guidelines. Residential construction loans normally have construction terms of one year or less and payment during the construction term is typically on an interest only basis from sources including interest reserves, borrower liquidity, and/or income. Residential construction loans will typically convert to permanent financing from the Company or have another financing commitment in place from an acceptable mortgage lender. Collateral valuation and loan-to-value guidelines are consistent with those for residential term loans. Residential construction loans are impacted by factors similar to those for residential real estate term loans in addition to risks related to contractor financial capacity and ability to complete a project within acceptable time frames and within budget.

Home Equity Revolving and Term - home equity revolving and term loans are made to qualified individuals and are secured by senior or junior mortgage liens on owner occupied one- to four-family homes, condominiums, or vacation homes. The home equity line of credit typically has a variable interest rate and is billed as interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Loan maturities are normally 300 months. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios usually not exceeding 80% inclusive of priority liens. Collateral valuation guidelines follow those for residential real estate loans. The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

Consumer - consumer loans include personal lines of credit and amortizing loans made to qualified individuals for various purposes such as autos, recreational vehicles, debt consolidation, personal expenses, or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. Consumer loans may be secured or unsecured. The overall health of the economy, including unemployment rates, has an impact on the credit quality of this segment.

Construction, land, and land development: CLLD loans, both commercial and residential, represented 35.5% 37.3% of total Bank capital as of June 30, 2023 September 30, 2023 and remain below the regulatory guidance of 100.0% of total Bank capital. Construction loans and non-owner-occupied commercial real estate loans represented 217.0% 215.5% of total Bank capital at June 30, 2023 September 30, 2023, below the regulatory guidance of 300.0% of total Bank capital.

Composition of the ACL: A breakdown of the allowance for credit losses as of June 30, 2023 September 30, 2023, by class of financing receivable and allowance element, is presented in the following table:

As of June 30, 2023	Specific Reserves on Loans Evaluated Individually	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Total Reserves
Commercial				
Real estate owner occupied	$ —	$ 3,998,000	$ 721,000	$ 4,719,000
Real estate non-owner occupied	—	3,947,000	545,000	4,492,000
Construction	—	1,361,000	108,000	1,469,000
C&I	157,000	3,886,000	678,000	4,721,000
Multifamily	—	1,218,000	94,000	1,312,000
Municipal	—	360,000	39,000	399,000
Residential				
Term	29,000	4,020,000	782,000	4,831,000
Construction	—	635,000	(26,000)	609,000
Home Equity				
Revolving and term	—	477,000	158,000	635,000
Consumer	—	248,000	30,000	278,000
	$ 186,000	$ 20,150,000	$ 3,129,000	$ 23,465,000

As of September 30, 2023	Specific Reserves on Loans Evaluated Individually	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Total Reserves
Commercial				
Real estate owner occupied	$ —	$ 3,731,000	$ 780,000	$ 4,511,000
Real estate non-owner occupied	—	3,855,000	574,000	4,429,000
Construction	—	1,445,000	157,000	1,602,000
C&I	225,000	3,909,000	663,000	4,797,000
Multifamily	—	1,184,000	93,000	1,277,000
Municipal	—	332,000	44,000	376,000
Residential				
Term	41,000	4,020,000	825,000	4,886,000
Construction	—	602,000	(26,000)	576,000
Home Equity				
Revolving and term	—	442,000	175,000	617,000
Consumer	—	219,000	32,000	251,000
	$ 266,000	$ 19,739,000	$ 3,317,000	$ 23,322,000

A breakdown of the allowance for loan losses as of December 31, 2022 under the incurred loss method, by class of financing receivable and allowance element, is presented in the following table:

As of December 31, 2022	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ —	$ 974,000	$ 5,142,000	$ —	$ 6,116,000
Construction	—	131,000	690,000	—	821,000
Other	298,000	446,000	2,353,000	—	3,097,000
Municipal	—	—	162,000	—	162,000
Residential					
Term	100,000	83,000	2,376,000	—	2,559,000
Construction	—	7,000	192,000	—	199,000
Home equity line of credit	—	101,000	928,000	—	1,029,000
Consumer	—	286,000	776,000	—	1,062,000
Unallocated	—	—	—	1,678,000	1,678,000
	$ 398,000	$ 2,028,000	$ 12,619,000	$ 1,678,000	$ 16,723,000

A breakdown of the allowance for loan losses as of June 30, 2022 September 30, 2022 under the incurred loss method, by class of financing receivable and allowance element, is presented in the following table:

As of September 30, 2022	As of June 30, 2022	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves	As of September 30, 2022	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial	Commercial						Commercial					
Real estate	Real estate	$ —	$ 873,000	$ 4,607,000	$ —	$ 5,480,000	Real estate	$ —	$ 867,000	$ 4,708,000	$ —	$ 5,575,000
Construction	Construction	8,000	182,000	961,000	—	1,151,000	Construction	6,000	173,000	942,000	—	1,121,000
Other	Other	502,000	390,000	2,056,000	—	2,948,000	Other	315,000	420,000	2,279,000	—	3,014,000
Municipal	Municipal	—	—	157,000	—	157,000	Municipal	—	—	160,000	—	160,000
Residential	Residential						Residential					
Term	Term	103,000	164,000	2,325,000	—	2,592,000	Term	99,000	102,000	2,346,000	—	2,547,000
Construction	Construction	—	13,000	178,000	—	191,000	Construction	—	7,000	161,000	—	168,000
Home equity line of credit	Home equity line of credit	—	104,000	862,000	—	966,000	Home equity line of credit	—	106,000	887,000	—	993,000
Consumer	Consumer	—	240,000	626,000	—	866,000	Consumer	—	216,000	656,000	—	872,000
Unallocated	Unallocated	—	—	—	1,850,000	1,850,000	Unallocated	—	—	—	1,937,000	1,937,000
		$ 613,000	$ 1,966,000	$ 11,772,000	$ 1,850,000	$ 16,201,000		$ 420,000	$ 1,891,000	$ 12,139,000	$ 1,937,000	$ 16,387,000

The allowance for credit losses as a percent of total loans stood at 1.14% 1.12% as of June 30, 2023 September 30, 2023, 0.87% at December 31, 2022 and 0.91% 0.88% as of June 30, 2022 September 30, 2022.

Off-Balance Sheet Credit Exposures: In the ordinary course of business, the Company enters into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded as loans when they are funded.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on off-balance sheet credit exposures is adjusted through credit loss expense and any adjustment is recognized in net income. To appropriately measure expected credit losses, management disaggregates the loan portfolio into similar risk characteristics, identical to those determined for the loan portfolio. An estimated funding rate is then applied to the qualifying unfunded loan commitments and letters of credit using the Company's own historical experience to estimate the expected funded amount for each loan segment as of the reporting date. Once the expected funded amount for each loan segment is determined, the loss rate, which is the calculated expected loan loss as a percent of the amortized cost basis for each loan segment, is applied to calculate the ACL on off-balance sheet credit exposures as of the reporting date. The Company's allowance for credit losses on unfunded commitments is recognized as a liability, included within other liabilities on the consolidated balance sheet.

The following table presents the activity in the ACL for off-balance sheet credit exposures for the six nine months ended June 30, 2023 September 30, 2023 :

Allowance for credit losses:		
Beginning balance, prior to adoption of ASC 326	$	100,000
Impact of adopting ASC 326		1,297,000
Credit loss expense		131,000 89,000
Total ending allowance balance	$	1,528,000 1,486,000

Credit Quality Indicators: To monitor the credit quality of its loan portfolio, management applies an internal risk rating system to categorize commercial loan segments. Approximately 60% of commercial loan outstanding balances are subject to review and validation annually by an independent consulting firm. Additionally, commercial loan relationships with exposure greater than or equal to 750,000 are subject to review annually by the Company's internal credit review function.

The risk rating system has eight levels, defined as follows:

1 Strong

Credits rated "1" are characterized by borrowers fully responsible for the credit with excellent capacity to pay principal and interest. Loans rated "1" may be secured with acceptable forms of liquid collateral.

2 Above Average

Credits rated "2" are characterized by borrowers that have better than average liquidity, capitalization, earnings, and/or cash flow with a consistent record of solid financial performance.

3 Satisfactory

Credits rated "3" are characterized by borrowers with favorable liquidity, profitability, and financial condition with adequate cash flow to pay debt service.

4 Average

Credits rated "4" are characterized by borrowers that present risk more than 1, 2 and 3 rated loans and merit an ordinary level of ongoing monitoring. Financial condition is on par or somewhat below industry averages while cash flow is generally adequate to meet debt service requirements.

5 Watch

Credits rated "5" are characterized by borrowers that warrant greater monitoring due to financial condition or unresolved and identified risk factors.

6 Other Assets Especially Mentioned

Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. OAEM have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the Company's credit position at some future date.

7 Substandard

Loans in this category are inadequately protected by the paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Company may sustain some loss if the deficiencies are not corrected.

8 Doubtful

Loans classified "Doubtful" have the same weaknesses as those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

Most residential real estate, home equity, and consumer loans are not assigned ratings; therefore they are categorized as performing and non-performing loans. Performing loans include loans that are current and loans that are past due less than 90 days. Loans that are past due more than 90 days are considered non-performing.

The following table summarizes the credit quality for the Company's portfolio by risk category of loans and by class by vintage as follows:

		Term Loans Amortized Cost Basis by Origination Year										Term Loans Amortized Cost Basis by Origination Year								
Dollars in thousands	*Dollars in thousands*	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted to Term**	**Total**	*Dollars in thousands*	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted to Term**	**Total**

As of June 30, 2023																				
As of September 30, 2023											***As of September 30, 2023***									
Commercial	**Commercial**										**Commercial**									
Real estate owner occupied	**Real estate owner occupied**										**Real estate owner occupied**									
Pass (risk rating 1-5)	Pass (risk rating 1-5)	$35,091	$75,256	$42,611	$29,022	$36,714	$71,292	$ 10,432	$ 187	$300,605	Pass (risk rating 1-5)	$43,022	$75,590	$41,851	$28,387	$35,696	$65,064	$ 9,355	$ 175	$299,14
Special Mention (risk rating 6)	Special Mention (risk rating 6)	75	—	—	12	503	—	—	—	590	Special Mention (risk rating 6)	—	—	—	—	—	—	—	—	—
Substandard (risk rating 7)	Substandard (risk rating 7)	—	—	—	—	—	125	—	—	125	Substandard (risk rating 7)	283	—	—	—	503	17	—	—	80
Doubtful (risk rating 8)	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—
Total Real Estate Owner Occupied	**Total Real Estate Owner Occupied**	35,166	75,256	42,611	29,034	37,217	71,417	10,432	187	301,320	**Total Real Estate Owner Occupied**	43,305	75,590	41,851	28,387	36,199	65,081	9,355	175	299,94
Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	39	—	—	39	Current period gross write-offs	—	—	—	—	—	40	—	—	4
Real estate non-owner occupied	**Real estate non-owner occupied**										**Real estate non-owner occupied**									
Pass (risk rating 1-5)	Pass (risk rating 1-5)	23,092	71,871	131,461	49,505	28,265	87,469	4,662	—	396,325	Pass (risk rating 1-5)	27,875	71,474	130,132	49,160	27,670	85,559	5,092	—	396,96
Special Mention (risk rating 6)	Special Mention (risk rating 6)	—	—	—	—	—	—	—	—	—	Special Mention (risk rating 6)	—	—	—	—	—	—	—	—	—
Substandard (risk rating 7)	Substandard (risk rating 7)	—	—	—	—	—	63	—	—	63	Substandard (risk rating 7)	—	—	—	—	—	62	—	—	6
Doubtful (risk rating 8)	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—
Total Real Estate Non-Owner Occupied	**Total Real Estate Non-Owner Occupied**	23,092	71,871	131,461	49,505	28,265	87,532	4,662	—	396,388	**Total Real Estate Non-Owner Occupied**	27,875	71,474	130,132	49,160	27,670	85,621	5,092	—	397,02
Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	—	—	—	—	Current period gross write-offs	—	—	—	—	—	—	—	—	—
Construction	**Construction**										**Construction**									
Pass (risk rating 1-5)	Pass (risk rating 1-5)	8,436	41,688	8,574	1,737	1,063	2,596	—	—	64,094	Pass (risk rating 1-5)	16,892	41,852	8,506	1,665	1,039	2,470	—	—	72,42
Special Mention (risk rating 6)	Special Mention (risk rating 6)	—	—	—	—	—	—	—	—	—	Special Mention (risk rating 6)	—	—	—	—	—	—	—	—	—
Substandard (risk rating 7)	Substandard (risk rating 7)	—	—	—	—	—	—	—	—	—	Substandard (risk rating 7)	—	—	—	—	—	—	—	—	—
Doubtful (risk rating 8)	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—
Total Construction	**Total Construction**	8,436	41,688	8,574	1,737	1,063	2,596	—	—	64,094	**Total Construction**	16,892	41,852	8,506	1,665	1,039	2,470	—	—	72,42

Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	—	—	—	—	Current period gross write-offs	—	—	—	—	—	—	—	—	—
C&I	**C&I**										**C&I**									
Pass (risk rating 1-5)	Pass (risk rating 1-5)	35,422	68,801	55,927	38,437	6,937	40,691	87,193	16,187	349,595	Pass (risk rating 1-5)	43,648	66,873	53,712	37,052	6,526	38,003	90,748	11,937	348,49
Special Mention (risk rating 6)	Special Mention (risk rating 6)	—	105	316	—	43	12	419	—	895	Special Mention (risk rating 6)	—	129	268	—	—	8	400	—	80
Substandard (risk rating 7)	Substandard (risk rating 7)	100	372	35	—	214	575	68	—	1,364	Substandard (risk rating 7)	94	363	35	—	188	545	67	—	1,29
Doubtful (risk rating 8)	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—
Total C&I	**Total C&I**	35,522	69,278	56,278	38,437	7,194	41,278	87,680	16,187	351,854	**Total C&I**	43,742	67,365	54,015	37,052	6,714	38,556	91,215	11,937	350,59
Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	—	—	—	—	Current period gross write-offs	—	—	—	—	16	—	—	—	1
Multifamily	**Multifamily**										**Multifamily**									
Pass (risk rating 1-5)	Pass (risk rating 1-5)	5,332	31,747	19,329	16,220	5,959	11,259	1,914	—	91,760	Pass (risk rating 1-5)	8,435	32,082	18,172	16,103	5,553	8,796	329	207	89,67
Special Mention (risk rating 6)	Special Mention (risk rating 6)	—	—	1,364	—	—	—	—	—	1,364	Special Mention (risk rating 6)	—	—	1,364	—	—	—	—	—	1,36
Substandard (risk rating 7)	Substandard (risk rating 7)	—	—	—	—	—	—	—	—	—	Substandard (risk rating 7)	—	—	—	—	—	—	—	—	—
Doubtful (risk rating 8)	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—
Total Multifamily	**Total Multifamily**	5,332	31,747	20,693	16,220	5,959	11,259	1,914	—	93,124	**Total Multifamily**	8,435	32,082	19,536	16,103	5,553	8,796	329	207	91,04
Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	—	—	—	—	Current period gross write-offs	—	—	—	—	—	—	—	—	—
Municipal	**Municipal**										**Municipal**									
Pass (risk rating 1-5)	Pass (risk rating 1-5)	20,516	6,991	4,352	11,036	5,691	9,666	—	—	58,252	Pass (risk rating 1-5)	24,527	6,239	4,121	10,226	5,270	8,064	—	—	58,44
Special Mention (risk rating 6)	Special Mention (risk rating 6)	—	—	—	—	—	—	—	—	—	Special Mention (risk rating 6)	—	—	—	—	—	—	—	—	—
Substandard (risk rating 7)	Substandard (risk rating 7)	—	—	—	—	—	—	—	—	—	Substandard (risk rating 7)	—	—	—	—	—	—	—	—	—
Doubtful (risk rating 8)	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—	Doubtful (risk rating 8)	—	—	—	—	—	—	—	—	—
Total Municipal	**Total Municipal**	20,516	6,991	4,352	11,036	5,691	9,666	—	—	58,252	**Total Municipal**	24,527	6,239	4,121	10,226	5,270	8,064	—	—	58,44
Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	—	—	—	—	Current period gross write-offs	—	—	—	—	—	—	—	—	—

		Term Loans Amortized Cost Basis by Origination Year										**Term Loans Amortized Cost Basis by Origination Year**							
Dollars in thousands	*Dollars in thousands*	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted to Term**	**Total**	*Dollars in thousands*	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Re Co t**
As of June 30, 2023																			

As of September 30, 2023											*As of September 30, 2023*							
Residential Term	**Residential Term**										**Residential Term**							
Performing	Performing	29,366	137,663	146,868	99,721	41,667	187,272	1,903	134	644,594	Performing	47,019	149,470	143,048	97,350	40,621	179,788	1,301
Non-performing	Non-performing	—	—	—	—	262	271	—	—	533	Non-performing	—	304	—	81	340	595	—
Total Term	**Total Term**	29,366	137,663	146,868	99,721	41,929	187,543	1,903	134	645,127	**Total Term**	47,019	149,774	143,048	97,431	40,961	180,383	1,301
Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	—	—	—	—	Current period gross write-offs	—	—	—	—	—	—	—
Construction	**Construction**										**Construction**							
Performing	Performing	6,627	22,880	—	1,305	—	—	—	—	30,812	Performing	15,966	11,715	—	1,305	—	—	—
Non-performing	Non-performing	—	—	—	—	—	—	—	—	—	Non-performing	—	—	—	—	—	—	—
Total Construction	**Total Construction**	6,627	22,880	—	1,305	—	—	—	—	30,812	**Total Construction**	15,966	11,715	—	1,305	—	—	—
Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	—	—	—	—	Current period gross write-offs	—	—	—	—	—	—	—
Home Equity Revolving and Term	**Home Equity Revolving and Term**										**Home Equity Revolving and Term**							
Performing	Performing	5,632	9,504	2,188	1,253	744	1,836	67,376	10,675	99,208	Performing	8,154	9,472	2,073	1,214	609	1,754	67,639
Non-performing	Non-performing	—	—	—	—	—	118	149	191	458	Non-performing	—	—	—	—	—	115	198
Total Home Equity Revolving and Term	**Total Home Equity Revolving and Term**	5,632	9,504	2,188	1,253	744	1,954	67,525	10,866	99,666	**Total Home Equity Revolving and Term**	8,154	9,472	2,073	1,214	609	1,869	67,837
Current period gross write-offs	Current period gross write-offs	—	—	—	—	—	—	—	—	—	Current period gross write-offs	—	—	—	—	—	—	—
Consumer	**Consumer**										**Consumer**							
Performing	Performing	2,411	2,684	1,425	2,207	643	4,705	6,241	—	20,316	Performing	3,072	2,338	1,296	1,951	538	4,404	5,771
Non-performing	Non-performing	—	—	—	—	—	—	—	—	—	Non-performing	—	—	—	—	—	—	—
Total Consumer	**Total Consumer**	2,411	2,684	1,425	2,207	643	4,705	6,241	—	20,316	**Total Consumer**	3,072	2,338	1,296	1,951	538	4,404	5,771
Current period gross write-offs	Current period gross write-offs	1	17	22	14	3	26	—	—	83	Current period gross write-offs	5	41	30	30	7	39	—
Total loans	**Total loans**	$172,100	$469,562	$414,450	$250,455	$128,705	$417,950	$ 180,357	$ 27,374	$2,060,953	**Total loans**	$238,987	$467,901	$404,578	$244,494	$124,553	$395,244	$ 180,900	$

Loss Recognition: Commercial loans are generally charged off when all or a portion of the principal amount is determined to be uncollectible. This determination is based on circumstances specific to a borrower including repayment ability, analysis of collateral, and other factors as applicable. Consumer loans greater than 120 days past due are generally charged off. Residential loans 90 days or more past due are placed on non-accrual status unless the loans are both well secured and in the process of collection. One- to four-family residential real estate loans and home equity loans are written down or charged-off no later than 180 days past due, or for residential real estate secured loans having a borrower in bankruptcy, within 60 days of receipt of notification of filing from the bankruptcy court, whichever is sooner. This is subject to completion of a current assessment of the value of the collateral with any outstanding loan balance in excess of the fair value of the property, less costs to sell, written down or charged-off.

The following table presents allowance for credit losses activity by class for the six nine months and quarter ended June 30, 2023 September 30, 2023:

Dollars in thousands	*Dollars in thousands*	**Commercial**	**Municipal**	**Residential**	**Home Equity**	**Consumer**	**Unallocated**	**Total**	*Dollars in thousands*	**Commercial**	**Munic**

		Real Estate Owner Occupied	Real Estate Non-Owner Occupied	Construction	C&I	Multifamily		Term	Construction	Revolving and term			
For the six months ended June 30, 2023													
For the nine months ended September 30, 2023													
Beginning balance, prior to adoption of ASC 326	Beginning balance, prior to adoption of ASC 326	$ 6,116	$ —	$ 821	$3,097	$ —	$ 162	$2,559	$ 199	$ 1,029	$ 1,062	$ 1,678	$16,723
Charge offs	Charge offs	39	—	—	—	—	—	—	—	—	83	—	122
Recoveries	Recoveries	—	—	—	3	—	—	6	—	7	58	—	74
Provision (credit)	Provision (credit)	328	177	(295)	(24)	128	105	388	(325)	55	43	—	580
Impact of adopting ASC 326	Impact of adopting ASC 326	$ (1,686)	$ 4,315	$ 943	$1,645	$ 1,184	$ 132	$1,878	$ 735	$ (456)	$ (802)	$ (1,678)	$ 6,210
Ending balance	Ending balance	$ 4,719	$ 4,492	$ 1,469	$4,721	$ 1,312	$ 399	$4,831	$ 609	$ 635	$ 278	$ —	$23,465
For the three months ended June 30, 2023													
For the three months ended September 30, 2023													
Beginning balance	Beginning balance	$ 4,470	$ 4,422	$ 1,784	$4,838	$ 1,206	$ 307	$4,608	$ 949	$ 603	$ 271	$ —	$23,458
Charge offs	Charge offs	—	—	—	—	—	—	—	—	—	46	—	46
Recoveries	Recoveries	—	—	—	1	—	—	4	—	3	15	—	23
Provision (credit)	Provision (credit)	249	70	(315)	(118)	106	92	219	(340)	29	38	—	30
Ending balance	Ending balance	$ 4,719	$ 4,492	$ 1,469	$4,721	$ 1,312	$ 399	$4,831	$ 609	$ 635	$ 278	$ —	$23,465

	Real Estate Owner Occupied	Real Estate Non-Owner Occupied	Construction	C&I	Multifamily
For the nine months ended September 30, 2023					
Beginning balance, prior to adoption of ASC 326	$ 6,116	$ —	$ 821	$3,097	$ —
Charge offs	40	—	—	16	—
Recoveries	2	75	—	3	—
Provision (credit)	119	39	(162)	68	93
Impact of adopting ASC 326	(1,686)	4,315	943	1,645	1,184
Ending balance	$ 4,511	$ 4,429	$ 1,602	$4,797	$ 1,277
For the three months ended September 30, 2023					
Beginning balance	$ 4,719	$ 4,492	$ 1,469	$4,721	$ 1,312
Charge offs	1	—	—	16	—
Recoveries	2	—	—	—	—
Provision (credit)	(209)	(63)	133	92	(35)
Ending balance	$ 4,511	$ 4,429	$ 1,602	$4,797	$ 1,277

As of June 30, 2023 September 30, 2023, the significant model inputs and assumptions used within the discounted cash flow model for purposes of estimating the ACL on loans were:

Macroeconomic (loss) drivers: The following loss drivers for each loan segment were used to calculate the expected Probability of Default over the forecast and reversion period:

- Commercial Real Estate Owner Occupied: FOMC median forecasts of national unemployment and change in national GDP
- Commercial Real Estate Non-Owner Occupied: FOMC median forecasts of national unemployment and change in national GDP
- Commercial Construction: FOMC median forecasts of national unemployment and change in national GDP
- Commercial & Industrial: FOMC median forecasts of national unemployment and change in national GDP
- Commercial Multifamily: FOMC median forecast of national unemployment and Case-Shiller National Home Price Index
- Municipal: FOMC median forecasts of national unemployment and change in national GDP
- Residential Real Estate Term: FOMC median forecasts of national unemployment and change in national GDP

- Residential Real Estate Construction: FOMC median forecast of national unemployment
- Home Equity Revolving & Term: FOMC median forecasts of national unemployment and change in national GDP
- Consumer: FOMC median forecasts of national unemployment and change in national GDP

Reasonable and supportable forecast period: The ACL on loans estimate used a reasonable and supportable forecast period of one year.
Reversion period: The ACL on loans estimate used a reversion period of one year.
Prepayment speeds: The estimate of prepayment speed for each loan segment was derived using internally sourced prepayment data.
Qualitative factors: The ACL on loans estimate incorporated various qualitative factors into the calculation such as changes in lending policies, changes in the nature and volume and terms of loans, changes in the experience, depth and ability of lending management, and economic factors not captured in the quantitative model.

The following table presents allowance for loan losses activity by class for the year ended December 31, 2022:

Dollars in thousands	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal	Residential Term	Residential Construction	Home Equity Line of Credit	Consumer	Unallocated	Total
For the year ended December 31, 2022										
Beginning balance	$ 5,367	$ 746	$ 2,830	$ 157	$ 2,733	$ 148	$ 925	$ 833	$ 1,782	$ 15,521
Charge offs	—	—	309	—	8	—	29	412	—	758
Recoveries	20	—	13	—	29	—	4	144	—	210
Provision (credit)	729	75	563	5	(195)	51	129	497	(104)	1,750
Ending balance	$ 6,116	$ 821	$ 3,097	$ 162	$ 2,559	$ 199	$ 1,029	$ 1,062	$ 1,678	$ 16,723

The following table presents allowance for loan losses activity by class for the six nine months and quarter ended June 30, 2022 September 30, 2022:

Dollars in thousands	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal	Residential Term	Residential Construction	Home Equity Line of Credit	Consumer	Unallocated	Total
For the six months ended June 30, 2022										
Beginning balance	$5,367	$ 746	$2,830	$ 157	$2,733	$ 148	$ 925	$ 833	$ 1,782	$15,521
Charge offs	—	—	43	—	—	—	29	287	—	359
Recoveries	17	—	2	—	11	—	1	108	—	139
Provision (credit)	96	405	159	—	(152)	43	69	212	68	900
Ending balance	$5,480	$ 1,151	$2,948	$ 157	$2,592	$ 191	$ 966	$ 866	$ 1,850	$16,201
For the three months ended June 30, 2022										
Beginning balance	$5,369	$ 939	$2,956	$ 156	$2,648	$ 161	$ 939	$ 866	$ 1,732	$15,766

Dollars in thousands	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal	Residential Term	Residential Construction	Home Equity Line of Credit	Consumer	Ur
For the nine months ended September 30, 2022									
Beginning balance	$5,367	$ 746	$2,830	$ 157	$2,733	$ 148	$ 925	$ 833	$
Charge offs	—	—	272	—	—	—	29	318	
Recoveries	16	—	11	—	27	—	3	128	
Provision (credit)	192	375	445	3	(213)	20	94	229	
Ending balance	$5,575	$ 1,121	$3,014	$ 160	$2,547	$ 168	$ 993	$ 872	$
For the three months ended September 30, 2022									
Beginning balance	$5,480	$ 1,151	$2,948	$ 157	$2,592	$ 191	$ 966	$ 866	$

Charge offs	Charge offs	$ —	$ —	$ 42	$ —	$ —	$ —	$ —	$ 70	$ —	$ 112	Charge offs	—	—	229	—	—	—	—	31	
Recoveries	Recoveries	$ 1	$ —	$ 1	$ —	$ 3	$ —	$ —	$ 92	$ —	$ 97	Recoveries	(1)	—	9	—	16	—	2	20	
Provision (credit)	Provision (credit)	$ 110	$ 212	$ 33	$ 1	$ (59)	$ 30	$ 27	$ (22)	$ 118	$ 450	Provision (credit)	96	(30)	286	3	(61)	(23)	25	17	
Ending balance	Ending balance	$5,480	$ 1,151	$2,948	$ 157	$2,592	$ 191	$ 966	$ 866	$ 1,850	$16,201	Ending balance	$5,575	$ 1,121	$3,014	$ 160	$2,547	$ 168	$ 993	$ 872	$

Note 5 – Stock-Based Compensation

At the 2020 Annual Meeting, shareholders approved the 2020 Equity Incentive Plan. The 2020 Plan reserves 400,000 shares of common stock for issuance in connection with stock options, restricted stock awards, and other equity based awards to attract and retain the best available personnel, provide additional incentive to officers, employees, and non-employee Directors, and promote the success of the Company. Such grants and awards will be structured in a manner that does not encourage the recipients to expose the Company to undue or inappropriate risk. Options issued under the 2020 Plan qualify for treatment as incentive stock options for purposes of Section 422 of the Internal Revenue Code. Other compensation under the 2020 Plan qualifies as performance-based for purposes of Section 162(m) of the Internal Revenue Code, and satisfies NASDAQ guidelines relating to equity compensation.

As of June 30, 2023 September 30, 2023, 98,810 shares of restricted stock had been granted under the 2020 Plan, of which 83,377 83,127 shares remain restricted as of June 30, 2023 September 30, 2023 as detailed in the following table:

Year Granted	Year Granted	Vesting Term (In Years)	Shares	Remaining Term (In Years)	Year Granted	Vesting Term (In Years)	Shares	Remaining Term (In Years)
2021	2021	3.0	25,968	0.6	2021	3.0	25,968	0.3
2022	2022	3.0	23,904	1.6	2022	3.0	23,654	1.3
2022	2022	2.5	1,250	1.6	2022	2.5	1,250	1.3
2023	2023	3.0	27,559	2.6	2023	3.0	27,559	2.3
2023	2023	2.0	2,946	1.6	2023	2.0	2,946	1.3
2023	2023	1.0	1,750	0.6	2023	1.0	1,750	0.3
			83,377	1.6			83,127	1.3

The compensation cost related to these non-vested restricted stock grants is $2,402,000 and is recognized over the vesting terms of each grant. In the six nine months ended June 30, 2023 September 30, 2023, $398,000 $607,000 of expense was recognized for these restricted shares, leaving $1,287,000 $1,069,000 in unrecognized expense as of June 30, 2023 September 30, 2023. In the six nine months ended June 30, 2022 September 30, 2022, $412,000 $610,000 of expense was recognized for restricted shares, leaving $1,155,000 $994,000 in unrecognized expense as of June 30, 2022 September 30, 2022.

Note 6 – Common Stock

Proceeds from sale of common stock totaled $408,000 $608,000 and $385,000 $588,000 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Note 7 – Earnings Per Share

The following table sets forth the computation of basic and diluted EPS for the six nine months ended June 30, 2023 September 30, 2023 and 2022:

		Income (Numerator)	Shares (Denominator)	Per-Share Amount		Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the six months ended June 30, 2023								
For the nine months ended September 30, 2023					**For the nine months ended September 30, 2023**			
Net income as reported	Net income as reported	$ 15,365,000			Net income as reported	$ 22,839,000		
Basic EPS: Income available to common shareholders	Basic EPS: Income available to common shareholders	15,365,000	10,995,399	$ 1.40	Basic EPS: Income available to common shareholders	22,839,000	10,993,406	$ 2.08
Effect of dilutive securities: restricted stock	Effect of dilutive securities: restricted stock		83,888		Effect of dilutive securities: restricted stock		84,089	

Diluted EPS: Income available to common shareholders plus assumed conversions	Diluted EPS: Income available to common shareholders plus assumed conversions	$	15,365,000	11,079,287	$	1.39	Diluted EPS: Income available to common shareholders plus assumed conversions	$	22,839,000	11,077,495	$	2.06
For the six months ended June 30, 2022												
For the nine months ended September 30, 2022							**For the nine months ended September 30, 2022**					
Net income as reported	Net income as reported	$	19,702,000				Net income as reported	$	29,793,000			
Basic EPS: Income available to common shareholders	Basic EPS: Income available to common shareholders		19,702,000	10,924,579	$	1.80	Basic EPS: Income available to common shareholders		29,793,000	10,927,920	$	2.73
Effect of dilutive securities: restricted stock	Effect of dilutive securities: restricted stock			97,508			Effect of dilutive securities: restricted stock			98,651		
Diluted EPS: Income available to common shareholders plus assumed conversions	Diluted EPS: Income available to common shareholders plus assumed conversions	$	19,702,000	11,022,087	$	1.79	Diluted EPS: Income available to common shareholders plus assumed conversions	$	29,793,000	11,026,571	$	2.70

The following table sets forth the computation of basic and diluted EPS for the quarters ended June 30, 2023 September 30, 2023 and 2022:

			Income (Numerator)	Shares (Denominator)		Per-Share Amount			Income (Numerator)	Shares (Denominator)		Per-Share Amount
For the quarter ended June 30, 2023												
For the quarter ended September 30, 2023							**For the quarter ended September 30, 2023**					
Net income as reported	Net income as reported	$	7,394,000				Net income as reported	$	7,474,000			
Basic EPS: Income available to common shareholders	Basic EPS: Income available to common shareholders		7,394,000	10,989,302	$	0.67	Basic EPS: Income available to common shareholders		7,474,000	11,003,987	$	0.68
Effect of dilutive securities: restricted stock	Effect of dilutive securities: restricted stock			83,501			Effect of dilutive securities: restricted stock			83,146		
Diluted EPS: Income available to common shareholders plus assumed conversions	Diluted EPS: Income available to common shareholders plus assumed conversions	$	7,394,000	11,072,803	$	0.67	Diluted EPS: Income available to common shareholders plus assumed conversions	$	7,474,000	11,087,133	$	0.67

For the quarter ended June 30, 2022												
For the quarter ended September 30, 2022							For the quarter ended September 30, 2022					
Net income as reported	Net income as reported	$	9,997,000				Net income as reported	$	10,091,000			
Basic EPS: Income available to common shareholders	Basic EPS: Income available to common shareholders		9,997,000	10,927,887	$	0.91	Basic EPS: Income available to common shareholders		10,091,000	10,934,492	$	0.92
Effect of dilutive securities: restricted stock	Effect of dilutive securities: restricted stock			100,142			Effect of dilutive securities: restricted stock			100,899		
Diluted EPS: Income available to common shareholders plus assumed conversions	Diluted EPS: Income available to common shareholders plus assumed conversions	$	9,997,000	11,028,029	$	0.91	Diluted EPS: Income available to common shareholders plus assumed conversions	$	10,091,000	11,035,391	$	0.91

Note 8 – Employee Benefit Plans

401(k) Plan

The Bank has a defined contribution plan available to substantially all employees who have completed three months of service. Employees may contribute up to IRS determined limits and the Bank may match employee contributions not to exceed 3.0% of compensation depending on contribution level. The Plan is a safe harbor plan whereby the Bank also contributes a minimum 3.0% of annual compensation to the plan for all eligible employees. The expense related to the 401(k) plan was $584,000 $826,000 and $550,000 $752,000 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Deferred Compensation and Supplemental Retirement Benefits

The Bank also provides unfunded supplemental retirement benefits for certain officers, payable in installments over 20 years upon retirement or death. The agreements consist of individual contracts with differing characteristics that, when taken together, do not constitute a postretirement plan. There are no active officers eligible for these benefits. The costs for these benefits are recognized over the service periods of the participating officers in accordance with FASB ASC Topic 712 "Compensation – Nonretirement Postemployment Benefits". The expense of these supplemental retirement benefits was $57,000 and $154,000 $231,000 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. As of June 30, 2023 September 30, 2023, the associated accrued liability included in other liabilities in the balance sheet was $2,807,000 $2,735,000 compared to $2,893,000 and $2,882,000 $2,888,000 at December 31, 2022 and June 30, 2022 September 30, 2022, respectively.

Postretirement Benefit Plans

The Bank sponsors two postretirement benefit plans. One plan currently provides a subsidy for health insurance premiums to certain retired employees; these subsidies are based on years of service and range between $40 and $1,200 per month per person. The other plan provides life insurance coverage to certain retired employees and health insurance for retired directors. None of these plans are prefunded. The Company utilizes FASB ASC Topic 712 to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in the funded status in the year in which the changes occur through comprehensive income (loss).

The following table sets forth the accumulated postretirement benefit obligation and funded status:

		At or for the six months ended June 30,					At or for the nine months ended September 30,			
			2023		2022			**2023**		2022
Change in benefit obligation	**Change in benefit obligation**					**Change in benefit obligation**				
Benefit obligation at beginning of year	Benefit obligation at beginning of year	**$**	**1,050,000**	$	1,353,000	Benefit obligation at beginning of year	**$**	**1,050,000**	$	1,353,000
Interest cost	Interest cost		**10,000**		17,000	Interest cost		**14,000**		24,000
Benefits paid	Benefits paid		**(44,000)**		(44,000)	Benefits paid		**(66,000)**		(66,000)
Benefit obligation at end of period	Benefit obligation at end of period	**$**	**1,016,000**	$	1,326,000	Benefit obligation at end of period	**$**	**998,000**	$	1,311,000

Funded status	**Funded status**					**Funded status**				
Benefit obligation at end of period	Benefit obligation at end of period	**$**	**(1,016,000)**	$	(1,326,000)	Benefit obligation at end of period	**$**	**(998,000)**	$	(1,311,000)
Unamortized gain	Unamortized gain		**(345,000)**		(133,000)	Unamortized gain		**(345,000)**		(133,000)
Accrued benefit cost at end of period	Accrued benefit cost at end of period	**$**	**(1,361,000)**	$	(1,459,000)	Accrued benefit cost at end of period	**$**	**(1,343,000)**	$	(1,444,000)

The following table sets forth the net periodic pension cost:

		For the six months ended June 30,		For the quarter ended June 30,			For the nine months ended September 30,		For the quarter ended September 30,	
		2023	2022	**2023**	2022		**2023**	2022	**2023**	2022
Components of net periodic benefit cost	**Components of net periodic benefit cost**					**Components of net periodic benefit cost**				
Interest cost	Interest cost	**$ 10,000**	$ 17,000	**$ 5,000**	$ 9,000	Interest cost	**$ 14,000**	$ 24,000	**$ 4,000**	$ 7,000
Net periodic benefit cost	Net periodic benefit cost	**$ 10,000**	$ 17,000	**$ 5,000**	$ 9,000	Net periodic benefit cost	**$ 14,000**	$ 24,000	**$ 4,000**	$ 7,000

Amounts not yet reflected in net periodic benefit cost and included in AOCI are as follows:

		June 30, 2023	December 31, 2022	June 30, 2022		**September 30, 2023**	December 31, 2022	September 30, 2022
Unamortized net actuarial gain	Unamortized net actuarial gain	**$ 345,000**	$ 345,000	$ 133,000	Unamortized net actuarial gain	**$ 345,000**	$ 345,000	$ 133,000
Deferred tax expense	Deferred tax expense	**(72,000)**	(72,000)	(28,000)	Deferred tax expense	**(72,000)**	(72,000)	(28,000)
Net unrecognized postretirement benefits included in AOCI	Net unrecognized postretirement benefits included in AOCI	**$ 273,000**	$ 273,000	$ 105,000	Net unrecognized postretirement benefits included in AOCI	**$ 273,000**	$ 273,000	$ 105,000

A weighted average discount rate of 4.75% was used in determining the accumulated benefit obligation and the net periodic benefit cost. The assumed health care cost trend rate is 7.00%. The measurement date for benefit obligations was as of year-end for prior years presented. The expected benefit payments for all of 2023 are $88,000. Plan expense for 2023 is estimated to be $19,000. A 1.00% change in trend assumptions would create an approximate change in the same direction of $100,000 in the accumulated benefit obligation, $7,000 in the interest cost, and $1,000 in the service cost.

Note 9 - Other Comprehensive Income (Loss)

The following table summarizes activity in the unrealized gain or loss on available for sale securities included in OCI for the six nine months and quarters ended June 30, 2023 September 30, 2023 and 2022.

		For the six months ended June 30,		For the quarter ended June 30,			For the nine months ended September 30,		For the quarter ended September 30,	
		2023	2022	**2023**	2022		**2023**	2022	**2023**	2022
Balance at beginning of period	Balance at beginning of period	**$ (44,718,000)**	$ (1,718,000)	**$ (40,537,000)**	$ (20,061,000)	Balance at beginning of period	**$ (44,718,000)**	$ (1,718,000)	**$ (43,781,000)**	$ (32,795,000)
Unrealized gains (losses) arising during the period		**1,186,000**	(39,337,000)	**(4,106,000)**	(16,120,000)					
Reclassification of net realized (gains) losses during the period		**—**	(1,000)	**—**	1,000					
Unrealized losses arising during the period						Unrealized losses arising during the period	**(11,562,000)**	(58,149,000)	**(12,748,000)**	(18,812,000)
Reclassification of net realized gains during the period						Reclassification of net realized gains during the period	**—**	(7,000)	**—**	(6,000)

Related deferred taxes	Related deferred taxes	**(249,000)**	8,261,000	**862,000**	3,385,000	Related deferred taxes	**2,428,000**	12,213,000	**2,677,000**	3,952,000
Net change	Net change	**937,000**	(31,077,000)	**(3,244,000)**	(12,734,000)	Net change	**(9,134,000)**	(45,943,000)	**(10,071,000)**	(14,866,000)
Balance at end of period	Balance at end of period	**$ (43,781,000)**	$ (32,795,000)	**$ (43,781,000)**	$ (32,795,000)	Balance at end of period	**$ (53,852,000)**	$ (47,661,000)	**$ (53,852,000)**	$ (47,661,000)

The reclassification of realized gains is included in the net securities gains line of the consolidated statements of income and comprehensive income and the tax effect is included in the income tax expense line of the same statement.

The following table summarizes activity in the unrealized loss on securities transferred from available for sale to held to maturity included in OCI for the six nine months and quarters ended June 30, 2023 September 30, 2023 and 2022.

		For the six months ended June 30,		For the quarter ended June 30,			For the nine months ended September 30,		For the quarter ended September 30,	
		2023	2022	**2023**	2022		**2023**	2022	**2023**	2022
Balance at beginning of period	Balance at beginning of period	**$ (64,000)**	$ (87,000)	**$ (60,000)**	$ (78,000)	Balance at beginning of period	**$ (64,000)**	$ (87,000)	**$ (59,000)**	$ (73,000)
Amortization of net unrealized gains	Amortization of net unrealized gains	**6,000**	18,000	**1,000**	6,000	Amortization of net unrealized gains	**7,000**	25,000	**1,000**	7,000
Related deferred taxes	Related deferred taxes	**(1,000)**	(4,000)	**—**	(1,000)	Related deferred taxes	**(1,000)**	(5,000)	**—**	(1,000)
Net change	Net change	**5,000**	14,000	**1,000**	5,000	Net change	**6,000**	20,000	**1,000**	6,000
Balance at end of period	Balance at end of period	**$ (59,000)**	$ (73,000)	**$ (59,000)**	$ (73,000)	Balance at end of period	**$ (58,000)**	$ (67,000)	**$ (58,000)**	$ (67,000)

The following table presents the effect of the Company's derivative financial instruments included in OCI for the six nine months and quarters ended June 30, 2023 September 30, 2023 and 2022.

	For the six months ended June 30,		For the quarter ended June 30,	
	2023	2022	**2023**	2022
Balance at beginning of period	**$ 544,000**	$ —	**$ (2,192,000)**	$ —
Unrealized gains on cash flow hedging derivatives arising during the period	**172,000**	185,000	**3,635,000**	185,000
Related deferred taxes	**(36,000)**	(39,000)	**(763,000)**	(39,000)
Net change	**136,000**	146,000	**2,872,000**	146,000
Balance at end of period	**$ 680,000**	$ 146,000	**$ 680,000**	$ 146,000

	For the nine months ended September 30,		For the quarter ended September 30,	
	2023	2022	**2023**	2022
Balance at beginning of period	**$ 544,000**	$ —	**$ 680,000**	$ 146,000
Unrealized gains on cash flow hedging derivatives arising during the period	**1,096,000**	633,000	**924,000**	448,000
Related deferred taxes	**(230,000)**	(133,000)	**(194,000)**	(94,000)
Net change	**866,000**	500,000	**730,000**	354,000
Balance at end of period	**$ 1,410,000**	$ 500,000	**$ 1,410,000**	$ 500,000

There was no activity in the unrealized gain or loss on postretirement benefits included in OCI for the six nine months and quarters ended June 30, 2023 September 30, 2023 and 2022.

Note 10 - Financial Derivative Instruments

The Bank uses derivative financial instruments for risk management purposes and not for trading or speculative purposes. As part of its overall asset and liability management strategy, the Bank periodically uses derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets or liabilities so that changes in interest rates do not have a significant effect on net interest income.

The Bank recognizes its derivative instruments in the consolidated balance sheets at fair value. On the date the derivative instrument is entered into, the Bank designates whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). The Bank formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Bank also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in cash flows or fair values of hedged items. Changes in fair value of derivative instruments that are highly effective and qualify as cash flow hedges are recorded in OCI. Any ineffective portion is recorded in earnings. The Bank discontinues hedge accounting when it is determined that the derivative is no longer highly effective in offsetting changes of the hedged risk on the hedged item, or management determines that the designation of the derivative as a hedging instrument is no longer appropriate.

The details of the interest rate Bank's swap agreements are as follows:

						June 30, 2023		December 31, 2022		June 30, 2022			
Effective Date	Effective Date	Maturity Date	Variable Index Received	Fixed Rate Paid	Presentation on Consolidated Balance Sheets	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Effective Date	Mat Date
Cash Flow Hedges													
04/27/2022	04/27/2022	10/27/2023	USD-SOFR-COMPOUND	2.498%	Other Assets	**$10,000,000**	**$89,000**	$10,000,000	$187,000	$10,000,000	$65,000	04/27/2022	10/27
04/27/2022	04/27/2022	01/27/2024	USD-SOFR-COMPOUND	2.576%	Other Assets	**10,000,000**	**158,000**	10,000,000	233,000	10,000,000	62,000	04/27/2022	01/27
04/27/2022	04/27/2022	04/27/2024	USD-SOFR-COMPOUND	2.619%	Other Assets	**10,000,000**	**219,000**	10,000,000	269,000	10,000,000	58,000	04/27/2022	04/27
01/10/2023	01/10/2023	01/01/2026	USD-SOFR-OIS COMPOUND	3.836%	Other Assets	**75,000,000**	**1,154,000**		—			01/10/2023	01/01
Fair Value Hedges													
03/08/2023	03/08/2023	03/01/2026	USD-SOFR-OIS COMPOUND	4.712%	Other Liabilities	**40,000,000**	**(231,000)**		—			03/08/2023	03/01
03/08/2023	03/08/2023	03/01/2027	USD-SOFR-OIS COMPOUND	4.402%	Other Liabilities	**30,000,000**	**(239,000)**		—			03/08/2023	03/01
03/08/2023	03/08/2023	03/01/2028	USD-SOFR-OIS COMPOUND	4.189%	Other Liabilities	**30,000,000**	**(289,000)**		—			03/08/2023	03/01
07/12/2023												07/12/2023	08/01
						$205,000,000	**$861,000**	$30,000,000	$689,000	$30,000,000	$185,000		
Total swap agreements												**Total swap agreemen**	

The Company would reclassify unrealized gains or losses accounted for within AOCI into earnings if the interest rate swaps were to become ineffective or the swaps were to terminate for cash flow hedges, or would amortize the gain or loss over the remaining life of the hedged instrument for fair value hedges. Amounts paid or received under the swaps are reported in interest income or interest expense in the consolidated statements of income, and reflected in net income in the consolidated statements of cash flows.

Customer loan derivatives

The Bank will enter into interest rate swaps with qualified commercial customers. Through these arrangements, the Bank is able to provide a means for a loan customer to obtain a long-term fixed rate, while it simultaneously contracts with an approved, highly-rated, third-party financial institution as counterparty to swap the fixed rate for a variable rate. Such loan level arrangements are not designated as hedges for accounting purposes, and are recorded at fair value in the Company's consolidated balance sheets.

At June 30, 2023 September 30, 2023 and 2022, and December 31, 2022, there were six customer loan swap arrangements in place, detailed below:

	June 30, 2023	December 31, 2022	June 30, 2022

		Presentation on Consolidated Balance Sheet	Number of Positions	Notional Amount	Fair Value	Number of Positions	Notional Amount	Fair Value	Number of Positions	Notional Amount	Fair Value
Pay Fixed, Receive Variable	Pay Fixed, Receive Variable	Other Assets	**6**	**$ 36,852,000**	**$ 4,715,000**	6	$ 37,411,000	$ 4,910,000	6	$ 38,903,000	$ 3,440,00
			6	**36,852,000**	**4,715,000**	6	37,411,000	4,910,000	6	38,903,000	3,440,00
Receive Fixed, Pay Variable	Receive Fixed, Pay Variable	Other Liabilities	**6**	**36,852,000**	**(4,715,000)**	6	37,411,000	(4,910,000)	6	38,903,000	(3,440,00
			6	**36,852,000**	**(4,715,000)**	6	37,411,000	(4,910,000)	6	38,903,000	(3,440,00
Total	Total		**12**	**$ 73,704,000**	**$ —**	12	$ 74,822,000	$ —	12	$ 77,806,000	$ -

Derivative collateral

The Bank has entered into a master netting arrangement with its counterparty and settles payments with the counterparty as necessary. The Bank's arrangement with its institutional counterparty requires it to post cash or other assets as collateral for its various loan swap contracts in a net liability position based on their fair values and the Bank's credit rating or receive cash collateral for contracts in a net asset position as requested. At June 30, 2023 September 30, 2023, the Bank there was no collateral posted to the counterparty $750,000 of cash as collateral on its swap contracts. There was no contracts or required amount to be pledged.

Cessation of LIBOR

The Company adopted SOFR as its replacement reference rate index for each of the customer loan interest rate swap contracts that were tied to a LIBOR tenor. The six contracts shown in the table immediately above have maturity dates of December 19, 2029, August 21, 2030, April 1, 2031, July 1, 2035, October 1, 2035 and October 1, 2039. The necessary actions to amend these legacy contracts to incorporate the new replacement reference rate index were undertaken during completed in the second quarter 2023.

Note 11 – Mortgage Servicing Rights

FASB ASC Topic 860 "Transfers and Servicing", requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. The Company's servicing assets and servicing liabilities are reported using the amortization method and carried at the lower of amortized cost or fair value by strata. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type, and term of the underlying loans. The model utilizes several assumptions, the most significant of which is loan prepayments, calculated using a three-months moving average of weekly prepayment data published by the PSA and modeled against the serviced loan portfolio, and the discount rate to discount future cash flows. As of June 30, 2023 September 30, 2023, the prepayment assumption using the PSA model was 106, 93, which translates into an anticipated prepayment rate of 5.09% 4.46%. The discount rate is 9.375% 10.00%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of mortgage servicing rights, as well as write-offs due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.

For the six nine months ended June 30, 2023 September 30, 2023 and 2022, servicing rights capitalized totaled $17,000 $34,000 and $237,000, $299,000, respectively. Servicing rights amortized for the six-month nine-month periods ended June 30, 2023 September 30, 2023 and 2022 were $197,000 $280,000 and $291,000, $402,000, respectively. The fair value of servicing rights was $3,639,000, $3,673,000, $3,734,000, and $3,751,000 $3,789,000 at June 30, 2023 September 30, 2023, December 31, 2022 and June 30, 2022 September 30, 2022, respectively. The Bank serviced loans for others totaling $332,993,000, $327,428,000, $342,870,000, and $354,308,000 $348,589,000 at June 30, 2023 September 30, 2023, December 31, 2022, and June 30, 2022 September 30, 2022, respectively.

Mortgage servicing rights are included in other assets and detailed in the following table:

		June 30, 2023	December 31, 2022	June 30, 2022		September 30, 2023	December 31, 2022	September 30, 2022
Mortgage servicing rights	Mortgage servicing rights	**$ 8,671,000**	$ 8,654,000	$ 8,579,000	Mortgage servicing rights	**$ 8,687,000**	$ 8,654,000	$ 8,640,000
Accumulated amortization	Accumulated amortization	**(6,358,000)**	(6,161,000)	(5,935,000)	Accumulated amortization	**(6,441,000)**	(6,161,000)	(6,046,000)
Carrying value	Carrying value	**$ 2,313,000**	$ 2,493,000	$ 2,644,000	Carrying value	**$ 2,246,000**	$ 2,493,000	$ 2,594,000

Note 12 – Income Taxes

FASB ASC Topic 740 "Income Taxes" defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2019 through 2022.

Note 13 - Certificates of Deposit

The following table represents the breakdown of certificates of deposit at June 30, 2023 September 30, 2023 and 2022, and at December 31, 2022:

	June 30, 2023	December 31, 2022	June 30, 2022	September 30, 2023	December 31, 2022	September 30, 2022

Certificates of deposit < $100,000	Certificates of deposit < $100,000	**$ 667,552,000**	$ 489,793,000	$ 340,876,000	Certificates of deposit < $100,000	**$ 641,429,000**	$ 489,793,000	$ 407,344,000
Certificates $100,000 to $250,000	Certificates $100,000 to $250,000	**252,720,000**	259,614,000	282,180,000	Certificates $100,000 to $250,000	**234,962,000**	259,614,000	295,112,000
Certificates $250,000 and over	Certificates $250,000 and over	**129,357,000**	118,264,000	81,354,000	Certificates $250,000 and over	**132,775,000**	118,264,000	83,720,000
		$ 1,049,629,000	$ 867,671,000	$ 704,410,000		**$ 1,009,166,000**	$ 867,671,000	$ 786,176,000

Note 14 – Reclassifications

Certain items from the prior year were reclassified in the consolidated financial statements to conform with the current year presentation. These do not have a material impact on the consolidated balance sheet or statement of income and comprehensive income presentations.

Note 15 – Fair Value

Certain assets and liabilities are recorded at fair value to provide additional insight into the Company's quality of earnings. Some of these assets and liabilities are measured on a recurring basis while others are measured on a nonrecurring basis, with the determination based upon applicable existing accounting pronouncements. For example, securities available for sale are recorded at fair value on a recurring basis. Other assets, such as other real estate owned and individually analyzed loans, are recorded at fair value on a nonrecurring basis using the lower of cost or market methodology to determine impairment of individual assets. The Company groups assets and liabilities, which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with level 1 considered highest and level 3 considered lowest). A brief description of each level follows:

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

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

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

The fair value methods and assumptions for the Company's financial instruments and other assets measured at fair value are set forth below.

Investment Securities

The fair values of investment securities are estimated by independent providers using a market approach with observable inputs, including matrix pricing and recent transactions. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to develop the fair values in order to determine whether the valuations are representative of an exit price in the Company's principal markets. The Company's principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominantly reflective of bid level pricing in those markets. Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. If these considerations had been incorporated into the fair value estimates, the aggregate fair value could have been changed. The carrying values of restricted equity securities approximate fair values. As such, the Company classifies investment securities as Level 2.

Loans

Fair values are estimated for portfolios of loans are based on an exit pricing notion. The fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest risk inherent in the loan. The estimates of maturity are based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions, and the effects of estimated prepayments. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information. Management has made estimates of fair value using discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, Management has no basis to determine whether the fair value presented above would be indicative of the value negotiated in an actual sale. As such, the Company classifies loans as Level 3, except for certain individually analyzed loans. Fair values of individually analyzed loans are based on estimated cash flows and are discounted using a rate commensurate with the risk associated with the estimated cash flows, or if collateral dependent, discounted to the appraised value of the collateral as determined by reference to sale prices of similar properties, less costs to sell. As such, the Company classifies individually analyzed loans for which a specific reserve results in a fair value measure as Level 2. All other individually analyzed loans are classified as Level 3.

Other Real Estate Owned

Real estate acquired through foreclosure is initially recorded at fair value. The fair value of other real estate owned is based on property appraisals and an analysis of similar properties currently available. As such, the Company records other real estate owned as nonrecurring Level 2.

Mortgage Servicing Rights

Mortgage servicing rights represent the value associated with servicing residential mortgage loans. Servicing assets and servicing liabilities are reported using the amortization method and compared to fair value for impairment. In evaluating the fair values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type, and term of the underlying loans. As such, the Company classifies mortgage servicing rights as Level 2.

Time Deposits

The fair value of maturity deposits is based on the discounted value of contractual cash flows using a replacement cost of funds approach. The discount rate is estimated using the cost of funds borrowing rate in the market. As such, the Company classifies time deposits as Level 2.

Borrowed Funds

The fair value of borrowed funds is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently available for borrowings of similar remaining maturities. As such, the Company classifies borrowed funds as Level 2.

Derivatives

The fair value of interest rate swaps is determined using inputs that are observable in the market place obtained from third parties including yield curves, publicly available volatilities, and floating indexes and, accordingly, are classified as Level 2 inputs. The credit value adjustments associated with derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. As of June 30, 2023 September 30, 2023 and 2022, and December 31, 2022, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives due to collateral postings.

Customer Loan Derivatives

The valuation of the Company's customer loan derivatives is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of master netting arrangements and any applicable credit enhancements, such as collateral postings.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on Management's judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax asset, premises and equipment, and other real estate owned. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the balances of assets and liabilities that were measured at fair value on a recurring basis as of June 30, 2023 September 30, 2023, December 31, 2022 and June 30, 2022 September 30, 2022.

		At June 30, 2023					At September 30, 2023			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Securities available for sale	**Securities available for sale**					**Securities available for sale**				
U.S. Government-sponsored agencies	U.S. Government-sponsored agencies	$ —	$ 19,361,000	$ —	$ 19,361,000	U.S. Government-sponsored agencies	$ —	$ 38,252,000	$ —	$ 38,252,000
Mortgage-backed securities	Mortgage-backed securities	—	222,192,000	—	222,192,000	Mortgage-backed securities	—	212,846,000	—	212,846,000
State and political subdivisions	State and political subdivisions	—	33,619,000	—	33,619,000	State and political subdivisions	—	30,780,000	—	30,780,000
Asset-backed securities	Asset-backed securities	—	3,183,000	—	3,183,000	Asset-backed securities	—	3,094,000	—	3,094,000
Total securities available for sale	**Total securities available for sale**	—	278,355,000	—	278,355,000	**Total securities available for sale**	—	284,972,000	—	284,972,000
Interest rate swap agreements	Interest rate swap agreements	—	1,620,000	—	1,620,000	Interest rate swap agreements	—	2,489,000	—	2,489,000
Customer loan interest swap agreements	Customer loan interest swap agreements	—	4,715,000	—	4,715,000	Customer loan interest swap agreements	—	6,031,000	—	6,031,000
Total interest rate swap agreements	**Total interest rate swap agreements**	—	6,335,000	—	6,335,000	**Total interest rate swap agreements**	—	8,520,000	—	8,520,000
Total assets	**Total assets**	$ —	$ 284,690,000	$ —	$ 284,690,000	**Total assets**	$ —	$ 293,492,000	$ —	$ 293,492,000

	At June 30, 2023				At September 30, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total

Interest rate swap agreements	Interest rate swap agreements	$ —	$ 759,000	$ —	$ 759,000	Interest rate swap agreements	$ —	$ —	$ —	$ —
Customer loan interest swap agreements	Customer loan interest swap agreements	—	4,715,000	—	4,715,000	Customer loan interest swap agreements	—	6,031,000	—	6,031,000
Total liabilities	**Total liabilities**	$ —	$ 5,474,000	$ —	$ 5,474,000	**Total liabilities**	$ —	$ 6,031,000	$ —	$ 6,031,000

	At December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Securities available for sale				
U.S. Government-sponsored agencies	$ —	$ 19,147,000	$ —	$ 19,147,000
Mortgage-backed securities	—	228,676,000	—	228,676,000
State and political subdivisions	—	33,191,000	—	33,191,000
Asset-backed securities	—	3,495,000	—	3,495,000
Total securities available for sale	—	284,509,000	—	284,509,000
Interest rate swap agreements	—	689,000	—	689,000
Customer loan interest swap agreements	—	4,910,000	—	4,910,000
Total interest rate swap agreements	—	5,599,000	—	5,599,000
Total assets	$ —	$ 290,108,000	$ —	$ 290,108,000

	At December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Customer loan interest swap agreements	$ —	$ 4,910,000	$ —	$ 4,910,000
Total liabilities	$ —	$ 4,910,000	$ —	$ 4,910,000

		At June 30, 2022					At September 30, 2022			
		Level 1	**Level 2**	**Level 3**	**Total**		**Level 1**	**Level 2**	**Level 3**	**Total**
Securities available for sale	**Securities available for sale**					**Securities available for sale**				
U.S. Government-sponsored agencies	U.S. Government-sponsored agencies	$ —	$ 21,067,000	$ —	$ 21,067,000	U.S. Government-sponsored agencies	$ —	$ 19,144,000	$ —	$ 19,144,000
Mortgage-backed securities	Mortgage-backed securities	—	244,682,000	—	244,682,000	Mortgage-backed securities	—	229,178,000	—	229,178,000
State and political subdivisions	State and political subdivisions	—	31,950,000	—	31,950,000	State and political subdivisions	—	31,106,000	—	31,106,000
Asset-backed securities	Asset-backed securities	—	4,038,000	—	4,038,000	Asset-backed securities	—	3,840,000	—	3,840,000
Total securities available for sale	**Total securities available for sale**	—	301,737,000	—	301,737,000	**Total securities available for sale**	—	283,268,000	—	283,268,000
Interest rate swap agreements	Interest rate swap agreements	—	185,000	—	185,000	Interest rate swap agreements	—	633,000	—	633,000

Customer loan interest swap agreements	Customer loan interest swap agreements	—	3,440,000	—	3,440,000	Customer loan interest swap agreements	—	5,365,000	—	5,365,000
Total interest swap agreements	**Total interest swap agreements**	—	3,625,000	—	3,625,000	**Total interest swap agreements**	—	5,998,000	—	5,998,000
Total assets	**Total assets**	$ —	$ 305,362,000	$ —	$ 305,362,000	**Total assets**	$ —	$ 289,266,000	$ —	$ 289,266,000

		At June 30, 2022					**At September 30, 2022**			
		Level 1	**Level 2**	**Level 3**	**Total**		**Level 1**	**Level 2**	**Level 3**	**Total**
Customer loan interest swap agreements	Customer loan interest swap agreements	$ —	$ 3,440,000	$ —	$ 3,440,000	Customer loan interest swap agreements	$ —	$ 5,365,000	$ —	$ 5,365,000
Total liabilities	**Total liabilities**	$ —	$ 3,440,000	$ —	$ 3,440,000	**Total liabilities**	$ —	$ 5,365,000	$ —	$ 5,365,000

Assets Recorded at Fair Value on a Non-Recurring Basis

The following tables include assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Mortgage servicing rights are presented at fair value with no impairment reserve for each of the periods presented. OREO is presented net of no allowance at June 30, 2023 and 2022. There was no OREO or related allowance at December 31, 2022. Only collateral-dependent individually analyzed loans with a related specific allowance for credit losses or a partial charge off are included in individually analyzed loans for purposes of fair value disclosures.

Individually analyzed loans below are presented net of specific allowances of $157,000, 19,000, $135,000 and $335,000 $151,000 at June 30, 2023 September 30, 2023, December 31, 2022, and June 30, 2022 September 30, 2022, respectively.

		At June 30, 2023					**At September 30, 2023**			
		Level 1	**Level 2**	**Level 3**	**Total**		**Level 1**	**Level 2**	**Level 3**	**Total**
Mortgage servicing rights	Mortgage servicing rights	$ —	$ 3,639,000	$ —	$ 3,639,000	Mortgage servicing rights	$ —	$ 3,673,000	$ —	$ 3,673,000
OREO		—	64,000	—	64,000					
Individually analyzed loans	Individually analyzed loans	—	215,000	—	215,000	Individually analyzed loans	—	285,000	—	285,000
Total assets	**Total assets**	$ —	$ 3,918,000	$ —	$ 3,918,000	**Total assets**	$ —	$ 3,958,000	$ —	$ 3,958,000

	At December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Mortgage servicing rights	$ —	$ 3,734,000	$ —	$ 3,734,000
Individually analyzed loans	—	20,000	—	20,000
Total assets	$ —	$ 3,754,000	$ —	$ 3,754,000

		At June 30, 2022					**At September 30, 2022**			
		Level 1	**Level 2**	**Level 3**	**Total**		**Level 1**	**Level 2**	**Level 3**	**Total**
Mortgage servicing rights	Mortgage servicing rights	$ —	$ 3,751,000	$ —	$ 3,751,000	Mortgage servicing rights	$ —	$ 3,789,000	$ —	$ 3,789,000
OREO		—	51,000	—	51,000					
Individually analyzed loans	Individually analyzed loans	—	5,000	—	5,000	Individually analyzed loans	—	5,000	—	5,000
Total assets	**Total assets**	$ —	$ 3,807,000	$ —	$ 3,807,000	**Total assets**	$ —	$ 3,794,000	$ —	$ 3,794,000

Fair Value of Financial Instruments

FASB ASC Topic 825 "Financial Instruments" requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet if the fair values can be reasonably determined. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques using observable inputs when available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

This summary excludes financial assets and liabilities for which carrying value approximates fair values and financial instruments that are recorded at fair value on a recurring basis. Financial instruments for which carrying values approximate fair value include cash equivalents, interest-bearing deposits in other banks, demand, NOW, savings, and money market deposits. The estimated fair value of demand, NOW, savings, and money market deposits is the amount payable on demand at the reporting date. Carrying value is used because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately.

The carrying amount and estimated fair values for financial instruments as of June 30, 2023 September 30, 2023 were as follows:

		Carrying value	Estimated fair value	Level 1	Level 2	Level 3		Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets	**Financial assets**						**Financial assets**					
Securities to be held to maturity (net of allowance for credit losses)	Securities to be held to maturity (net of allowance for credit losses)	$ 389,987,000	$ 336,007,000	$ —	$ 336,007,000	$ —	Securities to be held to maturity (net of allowance for credit losses)	$ 387,374,000	$ 311,864,000	$ —	$ 311,864,000	$ —
Loans (net of allowance for credit losses)	Loans (net of allowance for credit losses)						Loans (net of allowance for credit losses)					
Commercial	Commercial						Commercial					
Real estate	Real estate	688,497,000	653,180,000	—	—	653,180,000	Real estate	688,027,000	652,297,000	—	—	652,297,000
Construction	Construction	62,625,000	59,413,000	—	—	59,413,000	Construction	70,822,000	67,144,000	—	—	67,144,000
Other	Other	438,945,000	427,185,000	—	215,000	426,970,000	Other	435,563,000	423,464,000	—	—	423,464,000
Municipal	Municipal	57,853,000	53,169,000	—	—	53,169,000	Municipal	58,071,000	52,196,000	—	—	52,196,000
Residential	Residential						Residential					
Term	Term	640,296,000	572,873,000	—	—	572,873,000	Term	655,431,000	577,982,000	—	285,000	577,697,000
Construction	Construction	30,203,000	30,089,000	—	—	30,089,000	Construction	28,410,000	27,972,000	—	—	27,972,000
Home equity line of credit	Home equity line of credit	99,031,000	99,975,000	—	—	99,975,000	Home equity line of credit	101,363,000	102,124,000	—	—	102,124,000
Consumer	Consumer	20,038,000	17,984,000	—	—	17,984,000	Consumer	19,119,000	16,978,000	—	—	16,978,000
Total loans	Total loans	2,037,488,000	1,913,868,000	—	215,000	1,913,653,000	Total loans	2,056,806,000	1,920,157,000	—	285,000	1,919,872,000
Mortgage servicing rights	Mortgage servicing rights	2,313,000	3,639,000	—	3,639,000	—	Mortgage servicing rights	2,246,000	3,673,000	—	3,673,000	—
Financial liabilities	**Financial liabilities**						**Financial liabilities**					
Local certificates of deposit	Local certificates of deposit	$ 332,390,000	$ 311,328,000	$ —	$ 311,328,000	$ —	Local certificates of deposit	$ 338,280,000	$ 319,218,000	$ —	$ 319,218,000	$ —
National certificates of deposit	National certificates of deposit	717,239,000	719,323,000	—	719,323,000	—	National certificates of deposit	670,886,000	672,654,000	—	672,654,000	—
Total certificates of deposit	Total certificates of deposit	1,049,629,000	1,030,651,000	—	1,030,651,000	—	Total certificates of deposit	1,009,166,000	991,872,000	—	991,872,000	—
Repurchase agreements	Repurchase agreements	48,401,000	48,293,000	—	48,293,000	—	Repurchase agreements	52,915,000	52,793,000	—	52,793,000	—

Federal Home Loan Bank advances	Federal Home Loan Bank advances	66,080,000	66,050,000	—	66,050,000	—	Federal Home Loan Bank advances	30,078,000	30,074,000	—	30,074,000	—
Total borrowed funds	Total borrowed funds	114,481,000	114,343,000	—	114,343,000	—	Total borrowed funds	82,993,000	82,867,000	—	82,867,000	—

The carrying amounts and estimated fair values for financial instruments as of December 31, 2022 were as follows:

	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Securities to be held to maturity	$ 393,896,000	$ 339,011,000	$ —	$ 339,011,000	$ —
Loans (net of allowance for loan losses)					
Commercial					
Real estate	692,541,000	669,752,000	—	—	669,752,000
Construction	92,994,000	89,934,000	—	—	89,934,000
Other	315,917,000	312,219,000	—	20,000	312,199,000
Municipal	40,439,000	38,069,000	—	—	38,069,000
Residential					
Term	611,350,000	558,274,000	—	—	558,274,000
Construction	49,686,000	44,410,000	—	—	44,410,000
Home equity line of credit	75,416,000	78,878,000	—	—	78,878,000
Consumer	19,883,000	18,142,000	—	—	18,142,000
Total loans	1,898,226,000	1,809,678,000	—	20,000	1,809,658,000
Mortgage servicing rights	2,493,000	3,734,000	—	3,734,000	—
Financial liabilities					
Local certificates of deposit	$ 291,152,000	$ 275,658,000	$ —	$ 275,658,000	$ —
National certificates of deposit	576,519,000	569,883,000	—	569,883,000	—
Total certificates of deposit	867,671,000	845,541,000	—	845,541,000	—
Repurchase agreements	64,409,000	64,289,000	—	64,289,000	—
Federal Home Loan Bank advances	39,074,000	39,064,000	—	39,064,000	—
Total borrowed funds	103,483,000	103,353,000	—	103,353,000	—

The carrying amount and estimated fair values for financial instruments as of June 30, 2022 September 30, 2022 were as follows:

		Carrying value	Estimated fair value	Level 1	Level 2	Level 3		Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets	**Financial assets**						**Financial assets**					
Securities to be held to maturity	Securities to be held to maturity	$ 379,693,000	$ 335,950,000	$ —	$ 335,950,000	$ —	Securities to be held to maturity	$ 381,906,000	$ 313,796,000	$ —	$ 313,796,000	$ —
Loans (net of allowance for loan losses)	Loans (net of allowance for loan losses)						Loans (net of allowance for loan losses)					
Commercial	Commercial						Commercial					
Real estate	Real estate	611,302,000	610,394,000	—	—	610,394,000	Real estate	632,385,000	615,560,000	—	—	615,560,000
Construction	Construction	127,628,000	127,438,000	—	—	127,438,000	Construction	127,765,000	124,366,000	—	—	124,366,000
Other	Other	272,386,000	272,521,000	—	5,000	272,516,000	Other	306,692,000	304,024,000	—	5,000	304,019,000
Municipal	Municipal	46,658,000	47,414,000	—	—	47,414,000	Municipal	48,521,000	46,475,000	—	—	46,475,000
Residential	Residential						Residential					
Term	Term	580,076,000	548,022,000	—	—	548,022,000	Term	592,143,000	543,378,000	—	—	543,378,000

Construction	Construction	43,795,000	40,690,000	—	—	40,690,000	Construction	41,440,000	37,263,000	—	—	37,263,000
Home equity line of credit	Home equity line of credit	70,620,000	73,594,000	—	—	73,594,000	Home equity line of credit	72,812,000	76,287,000	—	—	76,287,000
Consumer	Consumer	20,378,000	19,026,000	—	—	19,026,000	Consumer	19,830,000	18,172,000	—	—	18,172,000
Total loans	Total loans	1,772,843,000	1,739,099,000	—	5,000	1,739,094,000	Total loans	1,841,588,000	1,765,525,000	—	5,000	1,765,520,000
Mortgage servicing rights	Mortgage servicing rights	2,644,000	3,751,000	—	3,751,000	—	Mortgage servicing rights	2,594,000	3,789,000	—	3,789,000	—
Financial liabilities	**Financial liabilities**						**Financial liabilities**					
Local certificates of deposit	Local certificates of deposit	$ 254,717,000	$ 246,032,000	$ —	$ 246,032,000	$ —	Local certificates of deposit	$ 252,211,000	$ 239,377,000	$ —	$ 239,377,000	$ —
National certificates of deposit	National certificates of deposit	449,693,000	441,369,000	—	441,369,000	—	National certificates of deposit	533,965,000	525,169,000	—	525,169,000	—
Total certificates of deposit	Total certificates of deposit	704,410,000	687,401,000	—	687,401,000	—	Total certificates of deposit	786,176,000	764,546,000	—	764,546,000	—
Repurchase agreements	Repurchase agreements	71,501,000	71,448,000	—	71,448,000	—	Repurchase agreements	68,258,000	59,208,000	—	59,208,000	—
Federal Home Loan Bank advances	Federal Home Loan Bank advances	55,087,000	55,072,000	—	55,072,000	—	Federal Home Loan Bank advances	50,085,000	50,071,000	—	50,071,000	—
Total borrowed funds	Total borrowed funds	126,588,000	126,520,000	—	126,520,000	—	Total borrowed funds	118,343,000	109,279,000	—	109,279,000	—

Note 16 – Impact of Recently Issued Accounting Standards

Adoption of New Accounting Standards: On January 1, 2023, the Company adopted ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as loans, such as loan commitments, standby letters of credit, certain lines of credit. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets, measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. On adoption, the Company recognized an increase in the allowance for credit losses on held to maturity securities of $438,000, an increase to the allowance for credit losses on loans of $6,210,000, and an increase to the reserve for off-balance sheet commitments of $1,297,000. The net, after-tax impact of the increases of the allowances for credit losses and reserve for off-balance sheet commitments was a net decrease to retained earnings of $6,277,000 shown in the Consolidated Statements of Changes in Stockholders Equity. Additional details can be found in Notes 3 and 4.

In March 2023, the FASB issued ASU No. 2023-02, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method. This ASU expands the use of proportional amortization method of accounting — currently allowed only for investments in low-income housing tax credit (LIHTC) structures — to equity investments in other tax credit structures that meet certain criteria. The proportional amortization method results in (1) the tax credit investment being amortized in proportion to the allocation of tax credits and other tax benefits in each period and (2) net presentation within the income tax line item. The ASU is effective beginning in 2024 for calendar year-end public business entities. Adoption is not expected to have a material impact on the Company's consolidated financial statements.

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

The First Bancorp, Inc. and Subsidiary

Forward-Looking Statements

This report contains statements that are "forward-looking statements." We may also make written or oral forward-looking statements in other documents we file with the SEC, in our annual reports to shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," "outlook," "will," "should," and other expressions that predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include the following: changes in general national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits, reductions in the market value of wealth management assets under administration, changes in the value of securities and other assets, reductions in loan demand, changes in loan collectability, default and charge-off rates, changes in the size and nature of the Company's competition, changes in legislation or regulation and accounting principles, policies and guidelines, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under "Risk Factors" in Item 1A of this Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the SEC, may result in these differences, as well as the "Risk Factors" in Part II, Item 1A listed below. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this quarterly report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. Readers are also urged to carefully review and consider the various disclosures made by the Company, which attempt to advise interested parties of the factors that affect the Company's business.

Critical Accounting Policies

Management's discussion and analysis of the Company's financial condition is based on the consolidated financial statements which are prepared in accordance with GAAP. The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, Management evaluates its estimates, including those related to the allowance for credit losses on loans, the fair value of securities and allowance for credit losses on securities, the allowance for credit losses on off balance sheet commitments, goodwill, and the valuation of mortgage servicing rights. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis in making judgments about the carrying values of assets that are not readily apparent from other sources. Actual results could differ from the amount derived from Management's estimates and assumptions under different assumptions or conditions.

Allowance for Credit Losses. Management believes the allowance for credit losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for credit losses is based on Management's evaluation of the level of the allowance required in relation to the estimated loss exposure in the loan and investment portfolios. The allowance is comprised of the allowance for credit losses on loans, the allowance for credit losses on off balance off-balance sheet commitments, and the allowance for credit losses on held to maturity securities. Management regularly evaluates the allowance, typically monthly, to determine the appropriate level by taking into consideration factors such as the size and growth trajectory of the portfolios, quality trends as measured by key indicators, prior loan loss experience in each loan portfolio segment, local and national business and economic conditions, and other factors contributing to Management's estimation of potential losses. The use of different estimates or assumptions could produce different provisions for credit losses.

Goodwill. Management utilizes numerous techniques to estimate the value of various assets held by the Company, including methods to determine the appropriate carrying value of goodwill as required under FASB ASC Topic 350 "Intangibles – Goodwill and Other." In addition, goodwill from a purchase acquisition is subject to ongoing periodic impairment tests, which include an evaluation of the ongoing assets, liabilities and revenues from the acquisition and an estimation of the impact of business conditions.

Mortgage Servicing Rights. The valuation of mortgage servicing rights is a critical accounting policy which requires significant estimates and assumptions. The Bank often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 0.25% of the outstanding balance of the loan per annum. Mortgage servicing rights are recognized at fair value when they are acquired through the sale of loans, and are reported in other assets. They are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The rights are subsequently carried at the lower of amortized cost or fair value. Management uses an independent firm which specializes in the valuation of mortgage servicing rights to determine the fair value which is recorded on the balance sheet. The most important assumption is the anticipated loan prepayment rate, and increases in prepayment speed results in lower valuations of mortgage servicing rights. The valuation also includes an evaluation for impairment based upon the fair value of the rights, which can vary depending upon current interest rates and prepayment expectations, as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. The use of different assumptions could produce a different valuation. All of the assumptions are based on standards the Company believes would be utilized by market participants in valuing mortgage servicing rights and are consistently derived and/or benchmarked against independent public sources.

Fair Value of Securities. Determining a market price for securities carried at fair value is a critical accounting estimate in the Company's financial statements. Pricing of individual securities is subject to a number of factors including changes in market interest rates, changes in prepayment speeds and assumptions, changes in market tolerance for risk, and any changes in the risk profile of the security. The Company subscribes to a widely recognized, independent pricing service and updates carrying values no less frequently than monthly. It also validates the values provided by the pricing service no less frequently than quarterly by measuring against security prices provided by a secondary source. Results of the validation are reported to the Bank's Asset Liability Committee each quarter and any variances between the two sources above defined thresholds are investigated by management.

Credit Loss Recognition on Securities. Another significant estimate related to investment securities is the evaluation of potential credit losses on investment securities. The evaluation of securities for potential credit losses is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized as a charge to the allowance for credit losses. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. Securities that are in an unrealized loss position are reviewed at least quarterly to determine if recognition of a loss is required. The primary factors considered in this evaluation (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the securities' market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity and (f) any other information and observable data considered relevant, including the expectation of receipt of all principal and interest when due.

Derivative Financial Instruments Designated as Hedges. The Company recognizes all derivatives in the consolidated balance sheets at fair value. On the date a derivative contract is entered into, the derivative is designated as a hedge of either a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value hedge”), or a held for trading instrument ("trading instrument"). The relationships between hedging instruments and hedged items is formally documented, as is the risk management objectives and strategy for undertaking various hedge transactions. Both at the hedge's inception and on an ongoing basis, determination is made as to whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows or fair values of hedged items. Changes in fair value of a derivative that is effective and that qualifies as a cash flow hedge are recorded in OCI and are reclassified into earnings when the forecasted transaction or related cash flows affect earnings. Changes in fair value of a derivative that qualifies as a fair value hedge and the change in fair value of the hedged item are both recorded in earnings and offset each other when the transaction is effective. Those derivatives that are classified as trading instruments, including customer loan swaps, are recorded at fair value with changes in fair value recorded in earnings. Hedge accounting is discontinued when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, that it is unlikely that the forecasted transaction will occur, or that the designation of the derivative as a hedging instrument is no longer appropriate.

Risks and Uncertainties. The nation's economy continues to demonstrate areas of strength and areas of weakness post-pandemic. Inflation is beginning to moderate as evidenced by recent trends in the Consumer Price Index, which had risen at levels not experienced since the 1980s. The labor market remains very tight with very low rates of unemployment and strong job creation, each contributing to inflationary pressure. To address the inflation problem, the FOMC has removed accommodative monetary policies and aggressively increased short-term interest rates throughout 2022 and into 2023. The

pace of increase by the FOMC has slowed and there is ongoing debate as to how close to the end of the rate hiking cycle the FOMC may be. If the FOMC does not increase rates enough, it risks an ongoing inflation problem; an overshoot on rate increases risks entering the economy into a recession. There is developing concern nationally on the commercial real estate market given high vacancy numbers in some locations. The ongoing conflict between Russia and Ukraine is ongoing and has generally the recent tensions arising from the Middle East have added to economic uncertainty and geopolitical instability. The failures in 2023 of several regional banks further roiled markets and introduced new sources of uncertainty. Any or all could have negative downstream effects on the Company's operating results, the extent of which is indeterminable at this time.

Use of Non-GAAP Financial Measures

Certain information in this release contains financial information determined by methods other than in accordance with GAAP. Management uses these "non-GAAP" measures in its analysis of the Company's performance (including for purposes of determining the compensation of certain executive officers and other Company employees) and believes that these non-GAAP financial measures provide a greater understanding of ongoing operations and enhance comparability of results with prior periods and with other financial institutions, as well as demonstrating the effects of significant gains and charges in the current period, in light of the disclosure practices employed by many other publicly-traded financial institutions. The Company believes that a meaningful analysis of its financial performance requires an understanding of the factors underlying that performance. Management believes that investors may use these non-GAAP financial measures to analyze financial performance without the impact of unusual items that may obscure trends in the Company's underlying performance. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

In several places net interest income is calculated on a fully tax-equivalent basis. Specifically included in interest income was tax-exempt interest income from certain investment securities and loans. An amount equal to the tax benefit derived from this tax-exempt income has been added back to the interest income total which, as adjusted, increased net interest income accordingly. Management believes the disclosure of tax-equivalent net interest income information improves the clarity of financial analysis, and is particularly useful to investors in understanding and evaluating the changes and trends in the Company's results of operations. Other financial institutions commonly present net interest income on a tax-equivalent basis. This adjustment is considered helpful in the comparison of one financial institution's net interest income to that of another institution, as each will have a different proportion of tax-exempt interest from its earning assets. Moreover, net interest income is a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, other financial institutions generally use tax-equivalent net interest income to provide a better basis of comparison from institution to institution. The Company follows these practices.

The following table provides a reconciliation of tax-equivalent financial information to the Company's consolidated financial statements prepared in accordance with GAAP. A Federal Income Tax rate of 21.0% was used in 2023 and 2022.

		For the six months ended June 30,		For the quarter ended June 30,			For the nine months ended September 30,		For the quarter ended September 30,	
Dollars in thousands	*Dollars in thousands*	**2023**	2022	**2023**	2022	*Dollars in thousands*	**2023**	2022	**2023**	2022
Net interest income as presented	Net interest income as presented	**$ 33,400**	$ 37,318	**$ 15,925**	$ 18,698	Net interest income as presented	**$ 49,354**	$ 56,682	**$ 15,954**	$ 19,364
Effect of tax-exempt income	Effect of tax-exempt income	**1,280**	1,127	**661**	570	Effect of tax-exempt income	**1,965**	1,719	**685**	592
Net interest income, tax equivalent	Net interest income, tax equivalent	**$ 34,680**	$ 38,445	**$ 16,586**	$ 19,268	Net interest income, tax equivalent	**$ 51,319**	$ 58,401	**$ 16,639**	$ 19,956

The Company presents its efficiency ratio using non-GAAP information which is most commonly used by financial institutions. The GAAP-based efficiency ratio is non-interest expenses divided by net interest income plus non-interest income from the Consolidated Statements of Income. The non-GAAP efficiency ratio excludes securities losses and provision for credit losses on securities from non-interest expenses, excludes securities gains from non-interest income, and adds the tax-equivalent adjustment to net interest income.

The following table provides a reconciliation between the GAAP and non-GAAP efficiency ratio:

	For the six months ended June 30,	For the quarter ended June 30,	For the nine months ended September 30,	For the quarter ended September 30,

Dollars in thousands	*Dollars in thousands*	**2023**	2022	**2023**	2022	*Dollars in thousands*	**2023**	2022	**2023**	2022	
Non-interest expense, as presented	Non-interest expense, as presented	**$ 21,565**	$ 20,822	**$ 10,715**	$ 10,172	Non-interest expense, as presented	**$ 32,571**	$ 32,193	**$ 11,006**	$ 11,371	
Net interest income, as presented	Net interest income, as presented	**33,400**	37,318	**15,925**	18,698	Net interest income, as presented	**49,354**	56,682	**15,954**	19,364	
Effect of tax-exempt interest income	Effect of tax-exempt interest income	**1,280**	1,127	**661**	570	Effect of tax-exempt interest income	**1,965**	1,719	**685**	592	
Non-interest income, as presented	Non-interest income, as presented	**7,439**	8,312	**3,870**	4,080	Non-interest income, as presented	**11,330**	13,027	**3,891**	4,715	
Effect of non-interest tax-exempt income	Effect of non-interest tax-exempt income	**86**	84	**43**	43	Effect of non-interest tax-exempt income	**131**	127	**44**	43	
Net securities (gains) losses		**—**	(1)	**—**	1						
Net securities gains							Net securities gains	**—**	(7)	**—**	(6)
Adjusted net interest income plus non-interest income	Adjusted net interest income plus non-interest income	**$ 42,205**	$ 46,840	**$ 20,499**	$ 23,392	Adjusted net interest income plus non-interest income	**$ 62,780**	$ 71,548	**$ 20,574**	$ 24,708	
Non-GAAP efficiency ratio	Non-GAAP efficiency ratio	**51.10 %**	44.45 %	**52.27 %**	43.49 %	ratio	**51.88 %**	44.99 %	**53.49 %**	46.02 %	
GAAP efficiency ratio	GAAP efficiency ratio	**52.80 %**	45.63 %	**54.13 %**	44.66 %	GAAP efficiency ratio	**53.67 %**	46.18 %	**55.46 %**	47.22 %	

The Company presents certain information based upon tangible common equity instead of total shareholders' equity. The difference between these two measures is the Company's intangible assets, specifically goodwill from prior acquisitions. Management, banking regulators and many stock analysts use the tangible common equity ratio and the tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method in accounting for mergers and acquisitions.

The following table provides a reconciliation of average tangible common equity to the Company's consolidated financial statements, which have been prepared in accordance with GAAP:

		For the six months ended June 30,		**For the quarter ended June 30,**			**For the nine months ended September 30,**		**For the quarter ended September 30,**	
Dollars in thousands	*Dollars in thousands*	**2023**	2022	**2023**	2022	*Dollars in thousands*	**2023**	2022	**2023**	2022
Average shareholders' equity as presented	Average shareholders' equity as presented	**$ 235,242**	$ 239,267	**$ 232,991**	$ 231,980	Average shareholders' equity as presented	**$ 234,832**	$ 237,412	**$ 234,024**	$ 233,763
Less average intangible assets	Less average intangible assets	**(30,850)**	(30,910)	**(30,853)**	(30,919)	Less average intangible assets	**(30,847)**	(30,901)	**(30,853)**	(30,884)
Average tangible shareholders' common equity	Average tangible shareholders' common equity	**$ 204,392**	$ 208,357	**$ 202,138**	$ 201,061	Average tangible shareholders' common equity	**$ 203,985**	$ 206,511	**$ 203,171**	$ 202,879

To provide period-to-period comparison of operating results prior to consideration of credit loss provision and income taxes, the non-GAAP measure of Pre-Tax, Pre-Provision Net Income is presented. The following table provides a reconciliation to Net Income:

		For the six months ended June 30,		For the quarter ended June 30,			For the nine months ended September 30,		For the quarter ended September 30,		
Dollars in thousands	*Dollars in thousands*	**2023**	2022	**2023**	2022	*Dollars in thousands*	**2023**	2022	**2023**	2022	
Net Income, as presented	Net Income, as presented	**$ 15,365**	$ 19,702	**$ 7,394**	$ 9,997	Net Income, as presented	**$ 22,839**	$ 29,793	**$ 7,474**	$ 10,091	
Add: provision for credit losses		**701**	900	**151**	450						
Add: provision (reduction) for credit losses							Add: provision (reduction) for credit losses	**501**	1,300	**(200)**	400
Add: income taxes expense	Add: income taxes expense	**3,208**	4,206	**1,535**	2,159	Add: income taxes expense	**4,773**	6,423	**1,565**	2,217	
Pre-tax, pre-provision net income	Pre-tax, pre-provision net income	**$ 19,274**	$ 24,808	**$ 9,080**	$ 12,606	Pre-tax, pre-provision net income	**$ 28,113**	$ 37,516	**$ 8,839**	$ 12,708	

Executive Summary

Net income for the six nine months ended June 30, 2023 September 30, 2023 was $15.4 million $22.8 million, down $4.3 million $7.0 million or 22.0% 23.3% from the same period in 2022. 2022 due to a decrease in net interest income resulting from higher funding costs. Earnings per common share on a fully diluted basis were $1.39 $2.06 for the six nine months ended June 30, 2023 September 30, 2023, down $0.40 $0.64 or 22.3% 23.7% from the $1.79 $2.70 posted for the same period in 2022. Dividends totaling $0.69 $1.04 per share have been declared year-to-date, representing a payout to our shareholders of 49.29% 50.00% of basic earnings per share for the period. For the quarter ended June 30, 2023 September 30, 2023, net income was $7.4 million $7.5 million, down $2.6 million or 26.0% 25.9% from the same period in 2022. Earnings per common share on a fully diluted basis were $0.67 for the quarter ended June 30, 2023 September 30, 2023, down $0.24 or 26.4% from the $0.91 posted for the same period in 2022.

Net interest income on a tax-equivalent basis was down $3.8 million $7.1 million or 9.8% 12.1% in the six nine months ended June 30, 2023 September 30, 2023 compared to the same period in 2022. The tax equivalent net interest margin for the six nine months ended June 30, 2023 September 30, 2023, was 2.62% 2.54%, down from 3.18% 3.17% for the same period in 2022. The period to period change in net interest income and net interest margin is primarily attributable to increased funding costs; also contributing was $1.1 million in PPP revenue earned in 2022

which was non-continuing. For the quarter ended June 30, 2023 September 30, 2023, net interest income on a tax-equivalent basis decreased $2.7 million $3.3 million or 13.9% 16.6% compared to the same period in 2022, with a net interest margin of 2.46% 2.40% compared to 3.13% 3.14% for the same period in 2022.

Non-interest income for the six nine months ended June 30, 2023 September 30, 2023 was $7.4 million $11.3 million, down $873,000 $1.7 million or 10.5% 13.0%, from the six nine months ended June 30, 2022 September 30, 2022. As compared to the prior year period, mortgage banking revenue decreased $491,000 $623,000 or 55.9% 50.5% on lower volume of mortgage sales and negative marks taken against mortgage servicing rights valuation. Debit card revenue was down $280,000 $1.0 million or 10.2% 21.3% due primarily to timing of program incentive payments, and payments; year-to-date revenue at First National Wealth Management decreased $71,000 or 2.9%. was essentially unchanged in 2023 from that earned in 2022.

Non-interest expense for the six nine months ended June 30, 2023 September 30, 2023 was $21.6 million $32.6 million, up $743,000 $378,000 or 3.6% 1.2% from the six nine months ended June 30, 2022 September 30, 2022. Salaries and employee benefits decreased 3.9% FDIC insurance premiums increased $691,000 from the same period in 2022, while salaries and employee benefits decreased 3.9% and other operating expense increased 10.1% decreased 0.9% over the same period.

Asset quality continues to be strong and stable. Non-performing assets stood at 0.09% of total assets as of September 30, 2023, up slightly from 0.07% of total assets as of September 30, 2022 and 0.06% of total assets as of June 30, 2023, down from 0.18% of total assets as of June 30, 2022 and level with December 31, 2022. Total past-due loans remain low and were 0.14% 0.10% of total loans as of June 30, 2023 September 30, 2023, up slightly from 0.08% of total loans as of December 31, 2022 and down from 0.18% as of June 30, 2022 September 30, 2022.

The provision for credit losses - on loans for the first six nine months of 2023 was $580,000, $419,000, down from the $900,000 $1.3 million provisioned in the same period in 2022. A reversal in the provision for credit losses on loans of $161,000 was recorded in the third quarter of 2023 under the CECL methodology. Net loan chargeoffs for the six nine months ended June 30, 2023 September 30, 2023 were $48,000 $30,000 or 0.005% 0.002% of average loans on an annualized basis, down from net charge-offs of $220,000 $434,000 or 0.030% of total loans for the six nine months ended June 30, 2022 September 30, 2022. The ACL for loans increased $6.7 million $6.6 million between December 31, 2022 and June 30, 2023 September 30, 2023, and now stands at 1.14% 1.12% of loans outstanding as of June 30, 2023 September 30, 2023, up from 0.87% at December 31, 2022 and 0.91% 0.88% at June 30, 2022 September 30, 2022. Most of the dollar increase in the ACL for loans is the result of CECL adoption. adoption and associated one-time adjustments.

The Company's balance sheet continued to expand in the first six nine months of 2023 as total assets increased $135.6 million $205.0 million or 5.0% 7.5% year-to-date. The loan portfolio increased $146.3 million $165.2 million or 7.6% 8.6% in the six nine months ended June 30, 2023 September 30, 2023 and $272.6 million $221.9 million or 15.2% 11.9% from a year ago. Loan growth in the first six nine months of 2023 was centered in the commercial and residential portfolios. Commercial loans increased by $94.2 million $98.4 million during the period, led by increases in owner-occupied commercial real estate of $44.7 million $43.3 million, non-owner occupied commercial real estate of $32.7 million $33.4 million and commercial & industrial loans of $32.5 million $31.2 million; commercial construction balances decreased by $29.8 million $21.5 million as a number of projects converted to permanent financing. Residential term loans increased by $47.7 million $62.6 million in the first six nine months of 2023, while residential construction loans decreased by $19.1 million $20.9 million. The investment portfolio decreased $8.7 million $6.1 million year-to-date and decreased $12.6 million increased $6.5 million from a year ago based upon cash flow of amortizing securities, limited reinvestment or new purchases, and changes in the carrying value of AFS securities.

On the liability side of the balance sheet total deposits have increased $121.0 million $221.1 million, or 5.1% 9.3%, year-to-date to $2.50 $2.60 billion. In the six months ended June 30, 2023 total local deposits fell by $4.4 million, or 0.3%, well within a normal range. Low-cost deposits (Demand, NOW, Savings) decreased $76.6 million or 5.8% increased $1.1 million during the nine-month period while as growth in Demand and NOW balances was offset by a decline in Savings balances. Money Market balances increased $15.6 million $78.4 million and CDs increased $182.0 million $141.5 million. A majority of the deposit growth generated YTD has been in local deposits which have increased by $120.8 million, as depositors shifted balances to higher cost product types. or 7.00%, year-to-date. To balance the seasonal runoff changes and to support earning asset growth, wholesale CDs have increased $140.7 million $94.4 year-to-date, while borrowings have increased decreased by $11.0 million $20.5 million.

Remaining well capitalized is a top priority for The Company. The Company's total risk-based capital ratio was 13.66% 13.76% as of June 30, 2023 September 30, 2023, solidly above the well-capitalized threshold of 10.0% set by the FDIC, the FRB, FRBB, and the OCC.

Among the Company's operating ratios, the return on average assets was 1.10% 1.08% and return on average tangible common equity of 15.16% 14.97% for the six nine months ended June 30, 2023 September 30, 2023 compared to 1.55% 1.54% and 19.07% 19.29%, respectively, for the same period in 2022. Our non-GAAP efficiency ratio continues to be an important component in the Company's overall performance and stood at 51.10% 51.88% for the six nine months ended June 30, 2023 September 30, 2023 compared to 44.45% 44.99% for the same period in 2022.

Net Interest Income

Total interest income of $60.1 million $93.4 million for the six nine months ended June 30, 2023 September 30, 2023 was an increase of $18.1 million $27.4 million or 43.2% 41.5% compared to total interest income of $42.0 million $66.0 million for the same period of 2022; interest income for the prior period included $1.1 million of non-recurring PPP revenue. Growth in earning assets coupled with higher interest rates resulted in the period to period increase. Higher market interest rates resulting from FOMC actions coupled with changing customer product preferences to higher cost money market and CD products led to total interest expense of $26.7 million $44.0 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $22.1 million $34.7 million or 474.6% 374.5% compared to total interest expense for the six nine months ended June 30, 2022 September 30, 2022. As a result, net interest income of $33.4 million $49.4 million for the six nine months ended June 30, 2023 September 30, 2023 was a decrease of $3.9 million $7.3 million or 10.5% 12.9% compared to net interest income of $37.3 million $56.7 million for the same period ended June 30, 2022 September 30, 2022; excluding the PPP income, the period-to-period change would have been 7.7% 11.2%. The Company's net interest margin on a tax-equivalent basis for the six nine months ended June 30, 2023 September 30, 2023 was 2.62% 2.54%, down from 3.18% 3.17% for the first six nine months of 2022. Tax-exempt interest income amounted to $4.8 million $7.4 million for the six nine months ended June 30, 2023 September 30, 2023 compared to $4.2 million $6.5 million for the six nine months ended June 30, 2022 September 30, 2022.

The following tables present the amount of interest earned or paid, as well as the average yield or rate on an annualized basis, for each major category of assets or liabilities for the six nine months and quarters ended June 30, 2023 September 30, 2023 and 2022. Tax-exempt income is calculated on a tax-equivalent basis, using a 21.0% Federal Income Tax rate.

		For the six months ended					**For the nine months ended**			
		June 30, 2023		June 30, 2022			**September 30, 2023**		September 30, 2022	
Dollars in thousands	*Dollars in thousands*	**Amount of interest**	**Average Yield/Rate**	Amount of interest	Average Yield/Rate	*Dollars in thousands*	**Amount of interest**	**Average Yield/Rate**	Amount of interest	Average Yield/Rate
Interest on earning assets	**Interest on earning assets**					**Interest on earning assets**				
Interest-bearing deposits	Interest-bearing deposits	**$ 89**	**4.89 %**	$ 71	0.52 %	Interest-bearing deposits	**$ 300**	**5.30 %**	$ 163	0.93 %
Investments	Investments	**10,546**	**3.11 %**	8,967	2.61 %	Investments	**15,795**	**3.12 %**	13,815	2.68 %
Loans held for sale	Loans held for sale	**—**	**0.00 %**	9	2.29 %	Loans held for sale	**—**	**0.00 %**	11	2.53 %
Loans	Loans	**50,743**	**5.15 %**	34,044	4.00 %	Loans	**79,222**	**5.26 %**	53,685	4.10 %
Total interest income	Total interest income	**61,378**	**4.63 %**	43,091	3.57 %	Total interest income	**95,317**	**4.72 %**	67,674	3.67 %
Interest expense	**Interest expense**					**Interest expense**				
Deposits	Deposits	**25,392**	**2.40 %**	4,026	0.44 %	Deposits	**42,384**	**2.62 %**	8,190	0.59 %
Other borrowings	Other borrowings	**1,306**	**2.16 %**	620	0.94 %	Other borrowings	**1,614**	**1.93 %**	1,083	1.09 %
Total interest expense	Total interest expense	**26,698**	**2.39 %**	4,646	0.47 %	Total interest expense	**43,998**	**2.58 %**	9,273	0.62 %
Net interest income	**Net interest income**	**$ 34,680**		$ 38,445		**Net interest income**	**$ 51,319**		$ 58,401	
Interest rate spread	Interest rate spread		**2.25 %**		3.10 %	Interest rate spread		**2.14 %**		3.05 %

Net interest margin	Net interest margin		**2.62 %**		3.18 %	Net interest margin		**2.54 %**		3.17 %

		For the quarters ended					For the quarters ended			
		June 30, 2023		June 30, 2022			**September 30, 2023**		September 30, 2022	
Dollars in thousands	*Dollars in thousands*	**Amount of interest**	**Average Yield/Rate**	Amount of interest	Average Yield/Rate	*Dollars in thousands*	**Amount of interest**	**Average Yield/Rate**	Amount of interest	Average Yield/Rate
Interest on earning assets	**Interest on earning assets**					**Interest on earning assets**				
Interest-bearing deposits	Interest-bearing deposits	**$ 49**	**5.45 %**	$ 62	0.87 %	Interest-bearing deposits	**$ 211**	**5.49 %**	$ 92	2.32 %
Investments	Investments	**5,264**	**3.10 %**	4,577	2.67 %	Investments	**5,249**	**3.12 %**	4,849	2.80 %
Loans held for sale	Loans held for sale	**—**	**0.00 %**	6	5.36 %	Loans held for sale	**—**	**0.00 %**	2	4.84 %
Loans	Loans	**26,532**	**5.26 %**	17,356	3.97 %	Loans	**28,479**	**5.45 %**	19,640	4.29 %
Total interest-earning assets	Total interest-earning assets	**31,845**	**4.72 %**	22,001	3.57 %	Total interest-earning assets	**33,939**	**4.89 %**	24,583	3.87 %
Interest expense	**Interest expense**					**Interest expense**				
Deposits	Deposits	**14,475**	**2.68 %**	2,401	0.51 %	Deposits	**16,992**	**3.02 %**	4,164	0.86 %
Other borrowings	Other borrowings	**784**	**2.33 %**	332	1.01 %	Other borrowings	**308**	**1.32 %**	463	1.40 %
Total interest expense	Total interest expense	**15,259**	**2.66 %**	2,733	0.54 %	Total interest expense	**17,300**	**2.96 %**	4,627	0.89 %
Net interest income	**Net interest income**	**$ 16,586**		$ 19,268		**Net interest income**	**$ 16,639**		$ 19,956	
Interest rate spread	Interest rate spread		**2.06 %**		3.03 %	Interest rate spread		**1.93 %**		2.97 %
Net interest margin	Net interest margin		**2.46 %**		3.13 %	Net interest margin		**2.40 %**		3.14 %

The following tables present changes in interest income and expense attributable to changes in interest rates and volume for interest-earning assets and liabilities for the six nine months and quarters ended June 30, 2023 September 30, 2023 compared to 2022. Tax-exempt income is calculated on a tax-equivalent basis, using a 21% Federal Income Tax rate.

For the six months ended June 30, 2023 compared to 2022										
For the nine months ended September 30, 2023 compared to 2022						**For the nine months ended September 30, 2023 compared to 2022**				
Dollars in thousands	*Dollars in thousands*	Volume	Rate	Rate/Volume[1]	Total	*Dollars in thousands*	Volume	Rate	Rate/Volume[1]	Total
Interest on earning assets	**Interest on earning assets**					**Interest on earning assets**				
Interest-bearing deposits	Interest-bearing deposits	$ (61)	$ 592	$ (513)	$ 18	Interest-bearing deposits	$ (110)	$ 765	$ (518)	$ 137
Investment securities	Investment securities	(115)	1,716	(22)	1,579	Investment securities	(259)	2,282	(43)	1,980

Loans held for sale	(9)	(9)	9	(9)	(10)	(11)	10	(11)
Loans	5,365	9,791	1,543	16,699	8,132	15,115	2,290	25,537
Change in interest income	5,180	12,090	1,017	18,287	7,753	18,151	1,739	27,643
Interest expense								
Deposits	629	17,933	2,804	21,366	1,292	28,418	4,484	34,194
Other borrowings	(53)	809	(70)	686	(168)	827	(128)	531
Change in interest expense	576	18,742	2,734	22,052	1,124	29,245	4,356	34,725
Change in net interest income	$ 4,604	$ (6,652)	$ (1,717)	$ (3,765)	$ 6,629	$ (11,094)	$ (2,617)	$ (7,082)

[1] Represents the change attributable to a combination of change in rate and change in volume.

For the quarter ended June 30, 2023 compared to 2022

For the quarter ended September 30, 2023 compared to 2022

Dollars in thousands	Volume	Rate	Rate/Volume[1]	Total	Volume	Rate	Rate/Volume[1]	Total
Interest on earning assets								
Interest-bearing deposits	$ (54)	$ 327	$ (286)	$ (13)	$ (3)	$ 126	$ (4)	$ 119
Investment securities	(41)	735	(7)	687	(148)	565	(17)	400
Loans held for sale	(5)	(6)	5	(6)	(1)	(2)	1	(2)
Loans	2,646	5,666	864	9,176	2,753	5,338	748	8,839
Change in interest income	2,546	6,722	576	9,844	2,601	6,027	728	9,356
Interest expense								
Deposits	331	10,321	1,422	12,074	670	10,474	1,684	12,828
Other borrowings	8	433	11	452	(136)	(27)	8	(155)
Change in interest expense	339	10,754	1,433	12,526	534	10,447	1,692	12,673
Change in net interest income	$ 2,207	$ (4,032)	$ (857)	$ (2,682)	$ 2,067	$ (4,420)	$ (964)	$ (3,317)

Average Daily Balance Sheets

The following table shows the Company's average daily balance sheets for the six nine months and quarters ended June 30, 2023 September 30, 2023 and 2022:

	For the six months ended	For the quarters ended	For the nine months ended	For the quarters ended

Dollars in thousands	*Dollars in thousands*	**June 30, 2023**	June 30, 2022	**June 30, 2023**	June 30, 2022	*Dollars in thousands*	**September 30, 2023**	September 30, 2022	**September 30, 2023**	September 30, 2022
Assets	**Assets**					**Assets**				
Cash and cash equivalents	Cash and cash equivalents	**$ 22,993**	$ 22,271	**$ 23,236**	$ 24,676	Cash and cash equivalents	**$ 25,355**	$ 23,926	**$ 29,993**	$ 27,062
Interest-bearing deposits in other banks	Interest-bearing deposits in other banks	**3,671**	27,378	**3,608**	28,646	Interest-bearing deposits in other banks	**7,567**	23,405	**15,241**	15,711
Securities available for sale (includes tax exempt securities of $36,630 and $34,751 at June 30, 2023 and 2022, respectively)		**286,004**	311,281	**284,047**	302,850					
Securities to be held to maturity, net of allowance for credit losses of $428 at June 30, 2023[1] (included tax exempt securities of $256,942 and $252,312 at June 30, 2023 and 2022, respectively)		**391,948**	375,461	**390,907**	379,111					
Securities available for sale (includes tax exempt securities of $40,442 and $35,457 at September 30, 2023 and 2022, respectively)						Securities available for sale (includes tax exempt securities of $40,442 and $35,457 at September 30, 2023 and 2022, respectively)	**281,935**	308,297	**273,930**	302,428
Securities to be held to maturity, net of allowance for credit losses of $432 at September 30, 2023[1] (included tax exempt securities of $257,421 and $253,554 at September 30, 2023 and 2022, respectively)						Securities to be held to maturity, net of allowance for credit losses of $432 at September 30, 2023[1] (included tax exempt securities of $257,421 and $253,554 at September 30, 2023 and 2022, respectively)	**390,828**	377,163	**388,623**	380,512
Restricted equity securities, at cost	Restricted equity securities, at cost	**5,050**	5,113	**5,642**	4,845	Restricted equity securities, at cost	**4,778**	5,011	**4,243**	4,809
Loans held for sale	Loans held for sale	**35**	792	**42**	449	Loans held for sale	**45**	581	**65**	164
Loans	Loans	**1,985,507**	1,715,229	**2,022,252**	1,754,773	Loans	**2,015,081**	1,750,004	**2,073,265**	1,818,419
Allowance for credit losses	Allowance for credit losses	**(20,355)**	(15,757)	**(23,648)**	(15,954)	Allowance for credit losses	**(21,478)**	(15,962)	**(23,688)**	(16,365)
Net loans	Net loans	**1,965,152**	1,699,472	**1,998,604**	1,738,819	Net loans	**1,993,603**	1,734,042	**2,049,577**	1,802,054
Accrued interest receivable	Accrued interest receivable	**13,123**	9,597	**14,420**	10,329	Accrued interest receivable	**13,223**	9,539	**13,419**	9,425
Premises and equipment	Premises and equipment	**28,163**	29,017	**28,122**	29,086	Premises and equipment	**28,109**	28,960	**28,004**	28,848
Other real estate owned	Other real estate owned	**2**	1	**4**	1	Other real estate owned	**8**	12	**19**	33
Goodwill	Goodwill	**30,646**	30,646	**30,646**	30,646	Goodwill	**30,646**	30,646	**30,646**	30,646
Other assets	Other assets	**62,707**	49,333	**63,560**	53,176	Other assets	**63,811**	51,225	**65,982**	54,953
Total Assets	**Total Assets**	**$ 2,809,494**	$ 2,560,362	**$ 2,842,838**	$ 2,602,634	**Total Assets**	**$ 2,839,908**	$ 2,592,807	**$ 2,899,742**	$ 2,656,645

Liabilities & Shareholders' Equity	**Liabilities & Shareholders' Equity**					**Liabilities & Shareholders' Equity**				
Demand deposits	Demand deposits	**$ 293,648**	$ 324,875	**$ 286,432**	$ 321,143	Demand deposits	**$ 301,738**	$ 333,828	**$ 316,488**	$ 351,025
NOW deposits	NOW deposits	**617,586**	645,566	**628,900**	634,251	NOW deposits	**618,445**	628,766	**620,135**	595,714
Money market deposits	Money market deposits	**192,341**	218,729	**190,671**	236,470	Money market deposits	**208,697**	210,145	**240,874**	193,257
Savings deposits	Savings deposits	**346,546**	369,373	**333,872**	372,088	Savings deposits	**339,078**	373,329	**324,384**	381,113
Certificates of deposit	Certificates of deposit	**978,477**	612,608	**1,009,771**	658,442	Certificates of deposit	**1,000,370**	659,083	**1,044,609**	750,935
Total deposits	Total deposits	**2,428,598**	2,171,151	**2,449,646**	2,222,394	Total deposits	**2,468,328**	2,205,151	**2,546,490**	2,272,044
Borrowed funds – short term	Borrowed funds – short term	**96,972**	133,466	**109,595**	131,233	Borrowed funds – short term	**112,080**	132,533	**92,461**	130,695
Borrowed funds – long term	Borrowed funds – long term	**25,080**	87	**25,080**	87	Borrowed funds – long term	**—**	85	**—**	85
Dividends payable	Dividends payable	**874**	819	**871**	855	Dividends payable	**892**	956	**928**	1,226
Other liabilities	Other liabilities	**22,728**	15,572	**24,655**	16,085	Other liabilities	**23,776**	16,670	**25,839**	18,832
Total Liabilities	Total Liabilities	**2,574,252**	2,321,095	**2,609,847**	2,370,654	Total Liabilities	**2,605,076**	2,355,395	**2,665,718**	2,422,882
Shareholders' Equity:	Shareholders' Equity:					Shareholders' Equity:				
Common stock	Common stock	**111**	110	**111**	110	Common stock	**111**	110	**111**	110
Additional paid-in capital	Additional paid-in capital	**68,769**	67,162	**68,963**	67,363	Additional paid-in capital	**68,975**	67,364	**69,381**	67,761
Retained earnings	Retained earnings	**208,241**	189,500	**206,953**	192,668	Retained earnings	**208,884**	192,666	**210,148**	198,897
Net unrealized loss on securities available for sale	Net unrealized loss on securities available for sale	**(41,545)**	(17,524)	**(41,376)**	(28,181)	Net unrealized loss on securities available for sale	**(43,293)**	(22,823)	**(46,732)**	(33,249)
Net unrealized loss on securities transferred from available for sale to held to maturity	Net unrealized loss on securities transferred from available for sale to held to maturity	**(61)**	(81)	**(60)**	(75)	Net unrealized loss on securities transferred from available for sale to held to maturity	**(60)**	(77)	**(58)**	(70)
Net unrealized loss on cash flow hedging derivative instruments		**(546)**	(5)	**(1,873)**	(10)					
Net unrealized gain (loss) on cash flow hedging derivative instruments						Net unrealized gain (loss) on cash flow hedging derivative instruments	**(58)**	67	**901**	209
Net unrealized gain on postretirement benefit costs	Net unrealized gain on postretirement benefit costs	**273**	105	**273**	105	Net unrealized gain on postretirement benefit costs	**273**	105	**273**	105
Total Shareholders' Equity	Total Shareholders' Equity	**235,242**	239,267	**232,991**	231,980	Total Shareholders' Equity	**234,832**	237,412	**234,024**	233,763

Total Liabilities & Shareholders' Equity	**Total Liabilities & Shareholders' Equity**	**$ 2,809,494**	$ 2,560,362	**$ 2,842,838**	$ 2,602,634	**Total Liabilities & Shareholders' Equity**	**$ 2,839,908**	$ 2,592,807	**$ 2,899,742**	$ 2,656,645

[1]*June September 30, 2022 had no allowance for credit losses*

Non-Interest Income

Non-interest income of $7.4 million $11.3 million for the six nine months ended June 30, 2023 September 30, 2023 is a decrease of $873,000 $1.7 million compared to the same period in 2022. The primary change period-to-period was Mortgage Banking revenue which was down $491,000, $623,000, or 55.9% 50.5%; the decrease is attributable to a year-to-year decrease in mortgage refinance origination activity and marks against mortgage servicing rights. Debit card revenue was down $280,000 $1.0 million or 10.2% 21.3%. Debit card interchange revenue has been reasonably steady year-over-year, and revenue changes are mostly attributable to the timing of annual incentive payments. Revenue at First National Wealth Management decreased $71,000 increased $2,000 or 2.9% 0.1% over the same period. Non-interest income of $3.9 million for the quarter ended June 30, 2023 September 30, 2023 is a decrease of $210,000 $824,000 compared to the same period in 2022; the decrease is primarily attributable to Mortgage Banking debit card revenue due to the reasons mentioned above.

Non-Interest Expense

Non-interest expense of $21.6 million $32.6 million for the six nine months ended June 30, 2023 September 30, 2023 is an increase of 3.6% 1.2% or $743,000 $378,000 compared to non-interest expense of $20.8 million $32.2 million for the same period in 2022. Salaries and employee benefits decreased $438,000 $672,000 or 3.9%, while and other operating expense increased $501,000 decreased $74,000 or 10.1% 0.9%. FDIC insurance premiums increased by $438,000 $691,000 due to a base rate increase impacting all banks. Non-interest expense of $10.7 million $11.0 million for the quarter ended June 30, 2023 September 30, 2023 is an increase a decrease of 5.3% 3.2% compared to non-interest expense of $10.2 million $11.4 million for the same period in 2022 due to the reasons mentioned.

Income Taxes

Income taxes on operating earnings were $3.2 million $4.8 million for the six nine months ended June 30, 2023 September 30, 2023, down $1.0 million $1.7 million from the same period in 2022.

Investments

The carrying value of the Company's investment portfolio decreased by $8.7 million $6.1 million between December 31, 2022 and June 30, 2023 September 30, 2023 from $682.3 million to $673.6 million $676.2 million. The change in value of the portfolio is attributable to a combination of incoming cash flow from amortizing investments, limited re-investment or new purchases, the effects of interest rate movement on the fair value of AFS holdings, and the establishment of an ACL for HTM securities. As of June 30, 2023 September 30, 2023, mortgage-backed securities had a carrying value of $280.7 million $270.1 million and a fair value of $269.7 million $256.7 million. Of this total, securities with a fair value of $78.3 million $73.6 million or 29.0% 28.7% of the mortgage-backed portfolio were issued by GNMA and securities with a fair value of $191.4 million $183.1 million or 71.0% 71.3% of the mortgage-backed portfolio were issued by FHLMC and FNMA.

The Company's investment securities are classified into two categories: securities available for sale and securities to be held to maturity. Securities available for sale consist primarily of debt securities which Management intends to hold for indefinite periods of time. They may be used as part of the Company's funds management strategy, and may be sold in response to changes in interest rates, prepayment risk and liquidity needs, to increase capital ratios, or for other similar reasons. Securities to be held to maturity consist primarily of debt securities that the Company has acquired solely for long-term investment purposes, rather than potential future sale. For securities to be categorized as HTM, Management must have the intent and the Company must have the ability to hold such investments until their respective maturity dates. The Company does not hold trading account securities.

All investment securities are managed in accordance with a written investment policy adopted by the Board of Directors. It is the Company's general policy that investments for either portfolio be limited to government debt obligations, time deposits, and corporate bonds or commercial paper with one of the three highest ratings given by a nationally recognized rating agency. The portfolio is currently invested primarily in U.S. Government agency securities, mortgage-backed securities and tax-exempt obligations of states and political subdivisions. The individual securities have been selected to enhance the portfolio's overall yield while not materially adding to the Company's level of interest rate risk.

During the third quarter of 2014, the Company transferred securities with a total amortized cost of $89,780,000 and a corresponding fair value of $89,757,000 from AFS to HTM. The net unrealized loss, net of taxes, on these securities at the date of the transfer was $15,000. The net unrealized holding loss at the time of transfer continues to be reported in AOCI, net of tax and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the net unrealized loss reported in AOCI will offset the effect on interest income of the discount for the transferred securities. The remaining unamortized balance of the net unrealized losses for the securities transferred from AFS to HTM was $59,000 $58,000 at June 30, 2023 September 30, 2023. This compares to $64,000 and $73,000, $67,000, net of taxes, at December 31, 2022 and June 30, 2022 September 30, 2022, respectively. These securities were transferred as a part of the Company's overall investment and balance sheet strategies.

The following table sets forth the Company's investment securities at their carrying amounts as of June 30, 2023 September 30, 2023 and 2022 and December 31, 2022.

Dollars in thousands	*Dollars in thousands*	**June 30, 2023**	December 31, 2022	June 30, 2022	*Dollars in thousands*	**September 30, 2023**	December 31, 2022	September 30, 2022
Securities available for sale	**Securities available for sale**				**Securities available for sale**			
U.S. Government-sponsored agencies		**$ 19,361**	$ 19,147	$ 21,067				
U.S. Treasury & Agency securities					U.S. Treasury & Agency securities	**$ 38,252**	$ 19,147	$ 19,144

Mortgage-backed securities	Mortgage-backed securities	**222,192**	228,676	244,682	Mortgage-backed securities	**212,846**	228,676	229,178
State and political subdivisions	State and political subdivisions	**33,619**	33,191	31,950	State and political subdivisions	**30,780**	33,191	31,106
Asset-backed securities	Asset-backed securities	**3,183**	3,495	4,038	Asset-backed securities	**3,094**	3,495	3,840
		$ 278,355	$ 284,509	$ 301,737		**$ 284,972**	$ 284,509	$ 283,268
Securities to be held to maturity	**Securities to be held to maturity**				**Securities to be held to maturity**			
U.S. Government-sponsored agencies		**$ 40,100**	$ 40,100	$ 38,100				
U.S. Treasury & Agency securities					U.S. Treasury & Agency securities	**$ 40,100**	$ 40,100	$ 38,100
Mortgage-backed securities	Mortgage-backed securities	**58,484**	60,497	57,739	Mortgage-backed securities	**57,224**	60,497	56,423
State and political subdivisions	State and political subdivisions	**257,081**	258,549	256,104	State and political subdivisions	**255,732**	258,549	257,633
Corporate securities	Corporate securities	**34,750**	34,750	27,750	Corporate securities	**34,750**	34,750	29,750
		$ 390,415	$ 393,896	$ 379,693		**$ 387,806**	$ 393,896	$ 381,906
Less allowance for credit losses	Less allowance for credit losses	**(428)**	—	—	Less allowance for credit losses	**(432)**	—	—
Net securities to be held to maturity	Net securities to be held to maturity	**$ 389,987**	$ 393,896	$ 379,693	Net securities to be held to maturity	**$ 387,374**	$ 393,896	$ 381,906
Restricted equity securities	**Restricted equity securities**				**Restricted equity securities**			
Federal Home Loan Bank Stock	Federal Home Loan Bank Stock	**$ 4,190**	$ 2,846	$ 3,683	Federal Home Loan Bank Stock	**$ 2,823**	$ 2,846	$ 3,477
Federal Reserve Bank Stock	Federal Reserve Bank Stock	**1,037**	1,037	1,037	Federal Reserve Bank Stock	**1,037**	1,037	1,037
		$ 5,227	$ 3,883	$ 4,720		**$ 3,860**	$ 3,883	$ 4,514
Total securities	Total securities	**$ 673,569**	$ 682,288	$ 686,150	Total securities	**$ 676,206**	$ 682,288	$ 669,688

The Company adopted ASC 326, the CECL standard in the current reporting period. first quarter of 2023. In conjunction with adoption, holdings of AFS Securities and HTM securities were evaluated to determine the need to establish an allowance for credit losses, if any. The total ACL for HTM securities was $428,000 $432,000 as of June 30, 2023 September 30, 2023; there was no reserve as of December 31, 2022 and June 30, 2022 September 30, 2022. Further details are included in Notes 2 and 16 of the accompanying financial statements.

The following table sets forth yields and contractual maturities of the Company's investment securities as of June 30, 2023 September 30, 2023. Yields on tax-exempt securities have been computed on a tax-equivalent basis using a tax rate of 21%. Mortgage-backed securities are presented according to their final contractual maturity date, while the calculated yield takes into effect the intermediate cash flows from repayment of principal which results in a much shorter average life.

		Available For Sale		Held to Maturity			Available For Sale		Held to Maturity	
Dollars in thousands	*Dollars in thousands*	Fair Value	Yield to maturity	Amortized Cost	Yield to maturity	*Dollars in thousands*	Fair Value	Yield to maturity	Amortized Cost	Yield to maturity
U.S. Government-Sponsored Agencies										

U.S. Treasury & Agency Securities								**U.S. Treasury & Agency Securities**						
Due in 1 year or less	Due in 1 year or less	$ —	0.00	%	$ —	0.00	%	Due in 1 year or less	$ 19,819	5.20	%	$ —	0.00	%
Due in 1 to 5 years	Due in 1 to 5 years	2,806	1.83	%	—	0.00	%	Due in 1 to 5 years	2,829	1.83	%	—	0.00	%
Due in 5 to 10 years	Due in 5 to 10 years	7,903	1.17	%	13,500	1.78	%	Due in 5 to 10 years	7,543	1.17	%	13,500	1.74	%
Due after 10 years	Due after 10 years	8,652	2.00	%	26,600	1.57	%	Due after 10 years	8,061	2.00	%	26,600	1.45	%
Total	Total	19,361	1.64	%	40,100	1.64	%	Total	38,252	3.48	%	40,100	1.55	%
Mortgage-Backed Securities	**Mortgage-Backed Securities**							**Mortgage-Backed Securities**						
Due in 1 year or less	Due in 1 year or less	—	0.00	%	—	0.00	%	Due in 1 year or less	—	0.00	%	—	0.00	%
Due in 1 to 5 years	Due in 1 to 5 years	188	2.68	%	4	8.22	%	Due in 1 to 5 years	274	3.21	%	3	8.87	%
Due in 5 to 10 years	Due in 5 to 10 years	3,897	1.96	%	152	7.16	%	Due in 5 to 10 years	10,286	3.65	%	348	6.13	%
Due after 10 years	Due after 10 years	218,107	2.26	%	58,328	1.77	%	Due after 10 years	202,286	2.29	%	56,873	1.66	%
Total	Total	222,192	2.26	%	58,484	1.79	%	Total	212,846	2.35	%	57,224	1.69	%
State & Political Subdivisions	**State & Political Subdivisions**							**State & Political Subdivisions**						
Due in 1 year or less	Due in 1 year or less	—	0.00	%	1,690	3.92	%	Due in 1 year or less	—	0.00	%	1,408	3.68	%
Due in 1 to 5 years	Due in 1 to 5 years	365	5.06	%	8,590	3.95	%	Due in 1 to 5 years	365	5.06	%	9,777	3.89	%
Due in 5 to 10 years	Due in 5 to 10 years	4,907	2.48	%	50,918	3.47	%	Due in 5 to 10 years	5,531	2.62	%	50,717	3.20	%
Due after 10 years	Due after 10 years	28,347	3.28	%	195,883	2.50	%	Due after 10 years	24,884	3.28	%	193,830	2.26	%
Total	Total	33,619	3.18	%	257,081	2.75	%	Total	30,780	3.19	%	255,732	2.51	%
Asset-Backed Securities	**Asset-Backed Securities**							**Asset-Backed Securities**						
Due in 1 year or less	Due in 1 year or less	—	0.00	%	—	0.00	%	Due in 1 year or less	—	0.00	%	—	0.00	%
Due in 1 to 5 years	Due in 1 to 5 years	—	0.00	%	—	0.00	%	Due in 1 to 5 years	—	0.00	%	—	0.00	%
Due in 5 to 10 years	Due in 5 to 10 years	—	0.00	%	—	0.00	%	Due in 5 to 10 years	—	0.00	%	—	0.00	%
Due after 10 years	Due after 10 years	3,183	6.32	%	—	0.00	%	Due after 10 years	3,094	6.57	%	—	0.00	%
Total	Total	3,183	6.32	%	—	0.00	%	Total	3,094	6.57	%	—	0.00	%
Corporate Securities	**Corporate Securities**							**Corporate Securities**						
Due in 1 year or less	Due in 1 year or less	—	0.00	%	750	1.50	%	Due in 1 year or less	—	0.00	%	750	1.50	%
Due in 1 to 5 years	Due in 1 to 5 years	—	0.00	%	6,000	4.74	%	Due in 1 to 5 years	—	0.00	%	6,000	4.75	%
Due in 5 to 10 years	Due in 5 to 10 years	—	0.00	%	28,000	4.62	%	Due in 5 to 10 years	—	0.00	%	28,000	4.59	%

Due after 10 years	Due after 10 years	—	0.00 %	—	0.00 %	Due after 10 years	—	0.00 %	—	0.00 %
Total	Total	—	0.00 %	34,750	4.57 %	Total	—	0.00 %	34,750	4.55 %
		$ 278,355	2.37 %	$ 390,415	2.65 %		$ 284,972	2.64 %	$ 387,806	2.48 %

Debt Securities in an Unrealized Loss Position

The securities portfolio contains certain securities where the amortized cost of which exceeds fair value, which at June 30, 2023 September 30, 2023 amounted to $110.1 million $144.1 million, or 15.64% 20.00% of the amortized cost of the total securities portfolio. At December 31, 2022, this amount was $111.7 million, or 15.65% of the amortized cost of total securities portfolio.

The Company's evaluation of securities for impairment is a quantitative and qualitative process intended to determine whether declines in the fair value of investment securities should be recognized as a charge against the allowance for credit losses. The primary factors considered in evaluating whether a loss should be recognized include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the securities market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity, and (f) any other information and observable data considered relevant in determining whether full collection of amounts contractually due will be realized.

The Company's best estimate of cash flows uses severe economic recession assumptions due to market uncertainty. The Company's assumptions include but are not limited to delinquencies, foreclosure levels and constant default rates on the underlying collateral, loss severity ratios, and constant prepayment rates. If the Company does not expect to receive 100% of future contractual principal and interest, a charge against the allowance for credit losses is recognized. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral.

As of June 30, 2023 September 30, 2023, the Company had debt securities in an unrealized loss position with a fair value of $551.0 million $550.2 million and unrealized losses of $110.1 million $144.1 million, as identified in the table below. Securities in a continuous unrealized loss position more than twelve months amounted to a fair value $453.3 million $453.7 million as of June 30, 2023 September 30, 2023, compared with $310.2 million at December 31, 2022. The Company has concluded that these securities are fully collectible and that no charge against the allowance is required. This conclusion was based on the issuer's continued satisfaction of the securities obligations in accordance with their contractual terms and the expectation that the issuer will continue to do so, Management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value which may be at maturity, the expectation that the Company will receive 100% of future contractual cash flows, as well as the evaluation of the fundamentals of the issuer's financial condition and other objective evidence. The following table summarizes debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at June 30, 2023 September 30, 2023:

		Less than 12 months		12 months or more		Total			Less than 12 months		12 months or more		Total	
Dollars in thousands	*Dollars in thousands*	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	*Dollars in thousands*	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses
U.S. Government-sponsored agencies		$ 1,981	$ (19)	$ 47,330	$ (16,799)	$ 49,311	$ (16,818)							
U.S. Treasury & Agency securities								U.S. Treasury & Agency securities	$ 11,842	$ (40)	$ 44,577	$ (19,555)	$ 56,419	$ (19,595)
Mortgage-backed securities	Mortgage-backed securities	22,083	(1,435)	241,009	(51,489)	263,092	(52,924)	Mortgage-backed securities	18,017	(441)	238,150	(63,825)	256,167	(64,266)
State and political subdivisions	State and political subdivisions	66,096	(1,995)	149,378	(34,367)	215,474	(36,362)	State and political subdivisions	66,583	(6,675)	147,818	(49,769)	214,401	(56,444)
Asset-backed securities	Asset-backed securities	—	—	1,516	(47)	1,516	(47)	Asset-backed securities	—	—	1,510	(4)	1,510	(4)
Corporate Securities	Corporate Securities	7,545	(1,955)	14,045	(1,955)	21,590	(3,910)	Corporate Securities	—	—	21,677	(3,823)	21,677	(3,823)
		$ 97,705	$ (5,404)	$ 453,278	$ (104,657)	$ 550,983	$ (110,061)		$ 96,442	$ (7,156)	$ 453,732	$ (136,976)	$ 550,174	$ (144,132)

For securities with unrealized losses, the following information was considered in determining that no charge against the allowance for decline in fair value was required in the current reporting period:

Securities issued by the U.S. Treasury and U.S. Government-sponsored agencies and & enterprises. As of June 30, 2023 September 30, 2023, there were $16.8 million $19.6 million unrealized losses on these securities compared to $17.4 million unrealized losses as of December 31, 2022. All of these securities were credit rated "AAA" or "AA+" by the major credit rating agencies. Management believes that securities issued by the U.S. Treasury and U.S. Government-sponsored agencies and enterprises have minimal carry zero or near-zero credit risk, and that 100% of the amounts contractually due will be collected.

Mortgage-backed securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises. As of June 30, 2023 September 30, 2023, there were $52.9 million $64.3 million of unrealized losses on these securities compared with $53.8 million at December 31, 2022. All of these securities were credit rated "AAA" or "AA+" by the major credit rating agencies. Management believes that securities issued by U.S. Government agencies bear no credit risk because they are backed by the full faith and credit of the

United States and that securities issued by U.S. Government-sponsored enterprises have minimal credit risk, as these agencies and enterprises play a vital role in the nation's financial markets. Management believes that the unrealized losses at June 30, 2023 September 30, 2023 were attributable to changes in current market yields and spreads since the date the underlying securities were purchased, and that 100% of the amounts contractually due will be realized. The Company also has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity.

Obligations of state and political subdivisions. As of June 30, 2023 September 30, 2023, there were $36.4 million $56.4 million of unrealized losses on these securities compared to $38.0 million at December 31, 2022. Municipal securities are supported by the general taxing authority of the municipality or a dedicated revenue stream, and, in the case of school districts, are generally supported by state aid. At June 30, 2023 September 30, 2023, all municipal bond issuers were current on contractually obligated interest and principal payments. The Company attributes the unrealized losses at June 30, 2023 September 30, 2023 to changes in prevailing market yields and pricing spreads since the date the underlying securities were purchased, combined with current market liquidity conditions and disruption in the financial markets in general. The Company has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity, and believes that 100% of the amounts contractually due will be realized.

Asset-backed securities. As of June 30, 2023 September 30, 2023, there were $47,000 $4,000 of unrealized losses on these securities compared to $53,000 at December 31, 2022. These securities consist of U.S. Government backed student loans along with other credit enhancements. Management believes that the unrealized losses at June 30, 2023 September 30, 2023 were attributable to changes in current market yields and spreads since the date the underlying securities were purchased, and that 100% of the amounts contractually due will be realized.

Corporate securities. As of June 30, 2023 September 30, 2023, there were $3.9 million $3.8 million of unrealized losses on these securities compared to $2.5 million at December 31, 2022. Corporate securities are dependent on the operating performance of the issuers. At June 30, 2023 September 30, 2023, all corporate bond issuers were current on contractually obligated interest and principal payments. Management believes that the unrealized losses at June 30, 2023 September 30, 2023 were attributable to changes in current market yields and spreads since the date the underlying securities were purchased, and that 100% of the amounts contractually due will be realized.

FHLBB and FRBB Stock

The Bank is a member of the FHLBB, a cooperatively owned wholesale bank for housing and finance in the six New England States. As a requirement of membership in the FHLBB, the Bank must own a minimum required amount of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. The Bank uses the FHLBB for a portion of its wholesale funding needs. As of June 30, 2023 September 30, 2023, the Bank's investment in FHLBB stock totaled $4.2 million $2.8 million. This compares to $2.8 million as of December 31, 2022 and $3.7 million $3.5 million as of June 30, 2022 September 30, 2022. FHLBB stock is a non-marketable equity security and therefore is reported at cost, subject to adjustments for any observable market transactions on the same or similar instruments of the investee. No impairment losses have been recorded through June 30, 2023 September 30, 2023. The Company will continue to monitor its investment in FHLB stock.

The Bank is also a member of the FRBB. As a requirement for membership in the FRBB, the Bank must own a minimum required amount of FRBB stock. The Bank uses FRBB for certain correspondent banking services and maintains borrowing capacity at its discount window. The Bank's investment in FRBB stock totaled $1,037,000 $1.0 million at June 30, 2023 September 30, 2023 and 2022 and December 31, 2022.

The Company periodically evaluates its investment in FHLBB and FRBB stock for impairment based on, among other factors, the capital adequacy of the Banks and their overall financial condition. No impairment losses have been recorded through June 30, 2023 September 30, 2023. The Bank will continue to monitor its investment in these restricted equity securities.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value. As of June 30, 2023 September 30, 2023, the Bank had no $268,000 in loans held for sale. This compares to $275,000 in loans held for sale at December 31, 2022 and $689,000 no loans held for sale at June 30, 2022 September 30, 2022. The Bank participates in FHLB's MPF, selling loans with recourse. The volume of loans sold to date through the MPF program is de minimis; therefore, there was minimal impact on the reserve.

Loans

The Company provides loans to customers within our market area, the State of Maine, with very limited exposures outside of Maine. Loans are originated primarily via our network of branch offices, along with an online channel for residential mortgage loans.

The loan portfolio increased during the first six nine months of 2023, with total loans at $2.06 billion $2.08 billion at June 30, 2023 September 30, 2023, up $146.3 million $165.2 million or 7.6% 8.6% from total loans of $1.91 billion at December 31, 2022. Commercial loans increased $94.2 million $98.4 million or 14.1% 14.7% between December 31, 2022 and June 30, 2023 September 30, 2023, municipal loans increased $17.6 million $17.8 million or 43.4% 43.9%, residential term loans increased $47.7 million $62.6 million, residential construction decreased $19.1 million $20.9 million, and home equity lines of credit increased $6.6 million $8.9 million.

The loan portfolio is segmented into ten classes. Commercial loans comprise five of the classes: commercial real estate owner occupied, commercial real estate non-owner occupied, commercial construction, C&I and multifamily. Residential mortgage loans comprise two of the classes: residential real estate term and residential real estate construction. The remaining classes are municipal loans, home equity loans, and consumer loans. Further descriptions of each class, and the risk factors associated with each, are included in Note 4 of the accompanying financial statements.

The following table summarizes the loan portfolio, by class, at June 30, 2023 September 30, 2023 and 2022 and December 31, 2022.

Dollars in thousands	*Dollars in thousands*	**June 30, 2023**		December 31, 2022		June 30, 2022		*Dollars in thousands*	**September 30, 2023**		December 31, 2022		September 30, 2022	
Commercial	Commercial							Commercial						
Real estate owner occupied	Real estate owner occupied	**$ 301,320**	**14.6 %**	$ 256,623	13.4 %	$ 242,161	13.5 %	Real estate owner occupied	**$ 299,943**	**14.4 %**	$ 256,623	13.4 %	$ 251,410	13.6 %

Real estate non-owner occupied	Real estate non-owner occupied	**396,388**	**19.2 %**	363,660	19.0 %	306,471	17.2 %	Real estate non-owner occupied	**397,024**	**19.1 %**	363,660	19.0 %	315,514	17.0 %
Construction	Construction	**64,094**	**3.1 %**	93,907	4.9 %	128,927	7.2 %	Construction	**72,424**	**3.5 %**	93,907	4.9 %	129,036	6.9 %
C&I	C&I	**351,854**	**17.1 %**	319,359	16.7 %	275,714	15.4 %	C&I	**350,596**	**16.9 %**	319,359	16.7 %	310,110	16.7 %
Multifamily	Multifamily	**93,124**	**4.5 %**	79,057	4.1 %	68,856	3.9 %	Multifamily	**91,041**	**4.4 %**	79,057	4.1 %	71,784	3.9 %
Municipal	Municipal	**58,252**	**2.8 %**	40,619	2.1 %	46,835	2.6 %	Municipal	**58,447**	**2.8 %**	40,619	2.1 %	48,702	2.6 %
Residential	Residential							Residential						
Term	Term	**645,127**	**31.4 %**	597,404	31.2 %	571,111	31.9 %	Term	**660,049**	**31.7 %**	597,404	31.2 %	581,066	31.3 %
Construction	Construction	**30,812**	**1.5 %**	49,907	2.6 %	44,011	2.5 %	Construction	**28,986**	**1.4 %**	49,907	2.6 %	41,631	2.2 %
Home Equity	Home Equity							Home Equity						
Revolving and term	Revolving and term	**99,666**	**4.8 %**	93,075	4.9 %	82,913	4.6 %	Revolving and term	**101,980**	**4.9 %**	93,075	4.9 %	87,903	4.7 %
Consumer	Consumer	**20,316**	**1.0 %**	21,063	1.1 %	21,356	1.2 %	Consumer	**19,370**	**0.9 %**	21,063	1.1 %	20,819	1.1 %
Total loans	Total loans	**$ 2,060,953**	**100.0 %**	$ 1,914,674	100.0 %	$ 1,788,355	100.0 %	Total loans	**$ 2,079,860**	**100.0 %**	$ 1,914,674	100.0 %	$ 1,857,975	100.0 %

The following table sets forth certain information regarding the contractual maturities of the Bank's loan portfolio as of June 30, 2023 September 30, 2023.

Dollars in thousands	*Dollars in thousands*	< 1 Year	1 - 5 Years	5 - 10 Years	> 10 Years	Total	*Dollars in thousands*	< 1 Year	1 - 5 Years	5 - 10 Years	> 10 Years	Total
Commercial	Commercial						Commercial					
Real estate owner occupied	Real estate owner occupied	$ 443	$ 12,869	$ 30,321	$ 257,687	$ 301,320	Real estate owner occupied	$ 201	$ 13,166	$ 30,298	$ 256,278	$ 299,943
Real estate non-owner occupied	Real estate non-owner occupied	1,315	16,396	60,582	318,095	396,388	Real estate non-owner occupied	—	17,606	59,813	319,605	397,024
Construction	Construction	—	5,236	9,306	49,552	64,094	Construction	7	5,068	9,301	58,048	72,424
C&I	C&I	1,997	161,221	82,034	106,602	351,854	C&I	584	164,368	82,441	103,203	350,596
Multifamily	Multifamily	—	1,189	339	91,596	93,124	Multifamily	—	1,162	331	89,548	91,041
Municipal	Municipal	1,000	16,498	9,957	30,797	58,252	Municipal	—	17,609	10,573	30,265	58,447
Residential	Residential						Residential					
Term	Term	—	6,321	38,424	600,382	645,127	Term	—	7,018	36,517	616,514	660,049
Construction	Construction	—	—	—	30,812	30,812	Construction	62	1,026	—	27,898	28,986
Home Equity	Home Equity						Home Equity					
Revolving and term	Revolving and term	1,139	4,931	4,845	88,751	99,666	Revolving and term	1,095	6,104	5,437	89,344	101,980
Consumer	Consumer	5,150	7,695	2,891	4,580	20,316	Consumer	5,764	7,577	2,706	3,323	19,370
Total loans	Total loans	$ 11,044	$ 232,356	$ 238,699	$ 1,578,854	$ 2,060,953	Total loans	$ 7,713	$ 240,704	$ 237,417	$ 1,594,026	$ 2,079,860

The following table provides a listing of loans by class, between variable and fixed rates as of June 30, 2023 September 30, 2023.

		Fixed-Rate		Adjustable-Rate		Total			Fixed-Rate		Adjustable-Rate		Total	
Dollars in thousands	*Dollars in thousands*	Amount	% of total	Amount	% of total	Amount	% of total	*Dollars in thousands*	Amount	% of total	Amount	% of total	Amount	% of total
Commercial	Commercial							Commercial						
Real estate owner occupied	Real estate owner occupied	$ 19,624	1.0 %	$ 281,696	13.6 %	$ 301,320	14.6 %	Real estate owner occupied	$ 19,717	0.9 %	$ 280,226	13.5 %	$ 299,943	14.4 %
Real estate non-owner occupied	Real estate non-owner occupied	95,979	4.7 %	300,409	14.5 %	396,388	19.2 %	Real estate non-owner occupied	95,580	4.6 %	301,444	14.5 %	397,024	19.1 %
Construction	Construction	22,292	1.1 %	41,802	2.0 %	64,094	3.1 %	Construction	22,517	1.1 %	49,907	2.4 %	72,424	3.5 %
C&I	C&I	136,027	6.6 %	215,827	10.5 %	351,854	17.1 %	C&I	133,381	6.5 %	217,215	10.4 %	350,596	16.9 %
Multifamily	Multifamily	710	0.0 %	92,414	4.5 %	93,124	4.5 %	Multifamily	694	0.0 %	90,347	4.4 %	91,041	4.4 %
Municipal	Municipal	58,004	2.8 %	248	0.0 %	58,252	2.8 %	Municipal	58,201	2.8 %	246	0.0 %	58,447	2.8 %

Residential	Residential							Residential						
Term	Term	453,133	22.1 %	191,994	9.3 %	645,127	31.4 %	Term	460,759	22.1 %	199,290	9.6 %	660,049	31.7 %
Construction	Construction	21,112	1.0 %	9,700	0.5 %	30,812	1.5 %	Construction	13,101	0.6 %	15,885	0.8 %	28,986	1.4 %
Home Equity	Home Equity							Home Equity						
Revolving and Term	Revolving and Term	10,802	0.5 %	88,864	4.3 %	99,666	4.8 %	Revolving and Term	12,359	0.6 %	89,621	4.3 %	101,980	4.9 %
Consumer	Consumer	14,145	0.7 %	6,171	0.3 %	20,316	1.0 %	Consumer	13,688	0.6 %	5,682	0.3 %	19,370	0.9 %
Total loans	Total loans	$ 831,828	40.5 %	$ 1,229,125	59.5 %	$ 2,060,953	100.0 %	Total loans	$ 829,997	39.8 %	$ 1,249,863	60.2 %	$ 2,079,860	100.0 %

Loan Concentrations

As of June 30, 2023, September 30, 2023 and 2022, the Bank had one concentration of loans that exceeded 10% of its total loan portfolio. Loans to hotels (except Casino hotels) and motels totaled $225.9 $226.4 million, or 10.96% of total loans. As of June 30, 2022, the Bank had two concentrations of loans that exceeded 10% of its total loan portfolio. Loans to hotels (except Casino hotels) 10.88% and motels totaled $200.5 $201.5 million, or 11.21% 10.84% of total loans, and loans to lessors of residential buildings and dwellings totaled $181.3 million, or 10.13% of total loans. respectfully.

Credit Risk Management and Allowance for Credit Losses on Loans

Upon adoption of the CECL standard, in the first quarter of 2023, the Company replaced the incurred loss model that recognized loan losses when it became probable that a credit loss would be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation amount that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. The ACL consists of three elements: (1) specific reserves for loans individually analyzed; (2) general reserves for each portfolio segment; and, (3) qualitative reserves. All outstanding loans are considered in evaluating the appropriateness of the allowance with similar risk characteristics in the portfolio. Prior to adoption of ASC 326, under the incurred loss methodology, the Company evaluated portfolio risk characteristics largely on loan purpose.

The Company provides for loan losses through the ACL which represents an estimated reserve for losses in the loan portfolio. To determine an appropriate level for general reserves, a discounted cash flow approach is applied to each portfolio segment implementing a probability of default and loss given default estimate based upon a number of factors including historical losses over an economic cycle, economic forecasts, loan prepayment speeds and curtailment rates. To determine an appropriate level for qualitative reserves various factors are considered including underwriting policies, credit administration practices, experience, ability and depth of lending management, and economic factors not captured in the general reserve calculation. Adoption of ASC 326 added $6.2 million to the ACL on loans, recorded as a charge to retained earnings.

The ACL is increased by provisions charged against current earnings. Loan losses are charged against the allowance when Management believes that the collectibility of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance. The adequacy of the ACL is overseen by the ACL Committee whose membership includes senior level personnel from the Executive, Lending, Credit Administration, and Finance functions of the Bank. While Management uses available information to assess possible losses on loans, future additions to the allowance may be necessary based on increases in non-performing loans, changes in economic conditions, growth in loan portfolios, or for other reasons. Any future additions to the allowance would be recognized in the period in which they were determined to be necessary. In addition, various regulatory agencies periodically review the Company's ACL as an integral part of their examination process. Such agencies may require the Company to record additions to the allowance based on judgments different from those of Management.

The ACL includes reserve amounts assigned to individually analyzed loans. This includes loans placed on non-accrual and loans reported as TDR prior to adoption of ASU 2022-02, with balances of $250,000 or more. A specific reserve is allocated to an individual loan when the amount of a probable loss is estimable on the basis of its collateral value, the present value of anticipated future cash flows, or its net realizable value. At June 30, 2023 September 30, 2023, individually analyzed loans with specific reserves totaled $886,000 $929,000 and the amount of such reserves was $186,000. $266,000. This compares to individually analyzed loans with specific reserves of $1.8 million at December 31, 2022 and the amount of such reserves was $398,000. Additional detail on individually analyzed loans may be found in Note 3 of the financial statements.

The total ACL on loans at June 30, 2023 September 30, 2023 is considered by Management to be appropriate to address the potential for credit losses inherent in the loan portfolio at that date. However, determination of the appropriate allowance level is based upon a number of assumptions made about future events, which we believe are reasonable, but which may or may not prove valid. Thus, there can be no assurance charge-offs in future periods will not exceed the ACL or that additional increases in the ACL will not be necessary.

The following table summarizes the allocation of allowance by loan class as of June 30, 2023 September 30, 2023 and 2022 and December 31, 2022. The percentages are the portion of each loan class to total loans.

Dollars in thousands	*Dollars in thousands*	**June 30, 2023**		December 31, 2022		June 30, 2022		*Dollars in thousands*	**September 30, 2023**		December 31, 2022		September 30, 2022	
Commercial	Commercial							Commercial						
Real estate owner occupied	Real estate owner occupied	**$ 4,719**	**14.6 %**	$ 6,116	36.5 %	$ 5,480	34.5 %	Real estate owner occupied	**$ 4,511**	**14.4 %**	$ 6,116	36.5 %	$ 5,575	34.5 %
Real estate non-owner occupied	Real estate non-owner occupied	**4,492**	**19.2 %**	—	— %	$ —	— %	Real estate non-owner occupied	**4,429**	**19.1 %**	—	— %	—	— %
Construction	Construction	**1,469**	**3.1 %**	821	4.9 %	$ 1,151	7.2 %	Construction	**1,602**	**3.5 %**	821	4.9 %	1,121	6.9 %
C&I	C&I	**4,721**	**17.1 %**	3,097	16.7 %	$ 2,948	15.4 %	C&I	**4,797**	**16.9 %**	3,097	16.7 %	3,014	16.7 %
Multifamily	Multifamily	**1,312**	**4.5 %**	—	— %	$ —	— %	Multifamily	**1,277**	**4.4 %**	—	— %	—	— %
Municipal	Municipal	**399**	**2.8 %**	162	2.1 %	$ 157	2.6 %	Municipal	**376**	**2.8 %**	162	2.1 %	160	2.6 %
Residential	Residential							Residential						

Term	Term	**4,831**	**31.4 %**	2,559	32.1 %	$ 2,592	32.6 %	Term	**4,886**	**31.7 %**	2,559	32.1 %	2,547	32.0 %
Construction	Construction	**609**	**1.5 %**	199	2.6 %	$ 191	2.5 %	Construction	**576**	**1.4 %**	199	2.6 %	168	2.2 %
Home Equity	Home Equity							Home Equity						
Revolving and term	Revolving and term	**635**	**4.8 %**	1,029	4.7 %	$ 966	4.0 %	Revolving and term	**617**	**4.9 %**	1,029	4.0 %	993	4.0 %
Consumer	Consumer	**278**	**1.0 %**	1,062	1.1 %	$ 866	1.2 %	Consumer	**251**	**0.9 %**	1,062	1.1 %	872	1.1 %
Unallocated	Unallocated	**—**	**— %**	1,678	— %	$ 1,850	— %	Unallocated	**—**	**— %**	1,678	— %	1,937	— %
Total	Total	**$ 23,465**	**100.0 %**	$ 16,723	100.0 %	$ 16,201	100.0 %	Total	**$ 23,322**	**100.0 %**	$ 16,723	100.0 %	$ 16,387	100.0 %

The ACL totaled $23.5 million $23.3 million at June 30, 2023 September 30, 2023, compared to $16.7 million as of December 31, 2022 and $16.2 million $16.4 million as of June 30, 2022 September 30, 2022. The increase in the total allowance from December 31, 2022 to June 30, 2023 September 30, 2023 is attributable to the adoption of CECL, along with normal provision and loan charge-off activity.

A breakdown of the ACL on loans as of June 30, 2023 September 30, 2023, by loan class and allowance element, is presented in the following table:

Dollars in thousands	*Dollars in thousands*	Specific Reserves on Loans Evaluated Individually	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Total Reserves	*Dollars in thousands*	Specific Reserves on Loans Evaluated Individually	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Total Reserves
Commercial	Commercial					Commercial				
Real estate owner occupied	Real estate owner occupied	$ —	$ 3,998	$ 721	$ 4,719	Real estate owner occupied	$ —	$ 3,731	$ 780	$ 4,511
Real estate non-owner occupied	Real estate non-owner occupied	—	3,947	545	4,492	Real estate non-owner occupied	—	3,855	574	4,429
Construction	Construction	—	1,361	108	1,469	Construction	—	1,445	157	1,602
C&I	C&I	157	3,886	678	4,721	C&I	225	3,909	663	4,797
Multifamily	Multifamily	—	1,218	94	1,312	Multifamily	—	1,184	93	1,277
Municipal	Municipal	—	360	39	399	Municipal	—	332	44	376
Residential	Residential					Residential				
Term	Term	29	4,020	782	4,831	Term	41	4,020	825	4,886
Construction	Construction	—	635	(26)	609	Construction	—	602	(26)	576
Home Equity	Home Equity					Home Equity				
Revolving and term	Revolving and term	—	477	158	635	Revolving and term	—	442	175	617
Consumer	Consumer	—	248	30	278	Consumer	—	219	32	251
		$ 186	$ 20,150	$ 3,129	$ 23,465		$ 266	$ 19,739	$ 3,317	$ 23,322

Based upon Management's evaluation, provisions are made to maintain the allowance as a best estimate of expected losses within the portfolio. The provision for credit losses to maintain the allowance was $580,000 $419,000 for the first six nine months of 2023 and $900,000 $1.3 million the first six nine months of 2022. A reversal in the provision for credit losses on loans of $161,000 was recorded in the third quarter of 2023 under CECL methodology. Net charge-offs were $48,000 $30,000 in the first six nine months of 2023, down from $220,000 $434,000 in the first six nine months of 2022. The ACL as a percentage of outstanding loans was 1.14% 1.12% as of June 30, 2023 September 30, 2023, up from 0.87% as of December 31, 2022, and up from 0.91% 0.88% as of June 30, 2022 September 30, 2022.

The following table summarizes the activities in our allowance for credit losses for the six nine months ended June 30, 2023 September 30, 2023 and 2022 and for the year ended December 31, 2022:

Dollars in thousands	*Dollars in thousands*	**June 30, 2023**	December 31, 2022	June 30, 2022	*Dollars in thousands*	**September 30, 2023**	December 31, 2022	September 30, 2022
Balance at the beginning of period	Balance at the beginning of period	**$ 16,723**	$ 15,521	$ 15,521	Balance at the beginning of period	**$ 16,723**	$ 15,521	$ 15,521
Loans charged off:	Loans charged off:				Loans charged off:			
Commercial	Commercial				Commercial			

Real estate owner occupied	Real estate owner occupied	**39**	—	—	Real estate owner occupied	**40**	—	—
Real estate non-owner occupied	Real estate non-owner occupied	**—**	—	—	Real estate non-owner occupied	**—**	—	—
Construction	Construction	**—**	—	—	Construction	**—**	—	—
C&I	C&I	**—**	309	43	C&I	**16**	309	272
Multifamily	Multifamily	**—**		—	Multifamily	**—**	—	—
Municipal	Municipal	**—**	—	—	Municipal	**—**	—	—
Residential	Residential				Residential			
Term	Term	**—**	8	—	Term	**—**	8	—
Construction	Construction	**—**	—	—	Construction	**—**	—	—
Home Equity	Home Equity				Home Equity			
Revolving and term	Revolving and term	**—**	29	29	Revolving and term	**—**	29	29
Consumer	Consumer	**83**	412	287	Consumer	**152**	412	318
Total	Total	**122**	758	359	Total	**208**	758	619
Recoveries on loans previously charged off	Recoveries on loans previously charged off				Recoveries on loans previously charged off			
Commercial	Commercial				Commercial			
Real estate owner occupied	Real estate owner occupied	**—**	20	17	Real estate owner occupied	**2**	20	16
Real estate non-owner occupied	Real estate non-owner occupied	**—**	—	—	Real estate non-owner occupied	**75**	—	—
Construction	Construction	**—**	—	—	Construction	**—**	—	—
C&I	C&I	**3**	13	2	C&I	**3**	13	11
Multifamily	Multifamily	**—**		—	Multifamily	**—**	—	—
Municipal	Municipal	**—**	—	—	Municipal	**—**	—	—
Residential	Residential				Residential			
Term	Term	**6**	29	11	Term	**10**	29	27
Construction	Construction	**—**	—	—	Construction	**—**	—	—
Home Equity	Home Equity				Home Equity			
Revolving and term	Revolving and term	**7**	4	1	Revolving and term	**10**	4	3
Consumer	Consumer	**58**	144	108	Consumer	**78**	144	128
Total	Total	**74**	210	139	Total	**178**	210	185
Net loans charged off	Net loans charged off	**48**	548	220	Net loans charged off	**30**	548	434
Provision for credit losses	Provision for credit losses	**580**	1,750	900	Provision for credit losses	**419**	1,750	1,300
Adoption of ASU No. 2016-13	Adoption of ASU No. 2016-13	**$ 6,210**	$ —	$ —	Adoption of ASU No. 2016-13	**6,210**	—	—
Balance at end of period	Balance at end of period	**$ 23,465**	$ 16,723	$ 16,201	Balance at end of period	**$ 23,322**	$ 16,723	$ 16,387
Ratio of net loans charged off to average loans outstanding[1]	Ratio of net loans charged off to average loans outstanding[1]	**0.005 %**	0.030 %	0.030 %	Ratio of net loans charged off to average loans outstanding[1]	**0.002 %**	0.030 %	0.030 %

Ratio of allowance for credit losses to total loans outstanding	Ratio of allowance for credit losses to total loans outstanding	**1.14 %**	0.87 %	0.91 %	Ratio of allowance for credit losses to total loans outstanding	**1.12 %**	0.87 %	0.88 %

[1] *Annualized using a 365-day basis for both 2023 and 2022.*

ACL for Unfunded Commitments

Adoption of CECL resulted in an increase in the Company's ACL for unfunded commitments. Our modeling methodology applies the same class level credit loss factors used in the ACL for loans model to applicable classes of unfunded commitments to determine an appropriate ACL level. Utilization assumptions are based upon an independent analysis of the Bank's historical data. The ACL for unfunded commitments is reported on the Company's consolidated balance sheets within other liabilities and totaled $1.5 million as of June 30, 2023 September 30, 2023.

Nonperforming Loans

Nonperforming loans are comprised of loans, for which based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement or when principal and interest is 90 days or more past due unless the loan is both well secured and in the process of collection (in which case the loan may continue to accrue interest in spite of its past due status). A loan is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt including accrued interest) in full, or (2) by the guarantee of a financially responsible party. A loan is "in the process of collection" if collection of the loan is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

Generally, when a loan becomes 90 days past due it is evaluated for collateral dependency based upon the most recent appraisal or other evaluation method. If the collateral value is lower than the outstanding loan balance plus accrued interest and estimated selling costs, the loan is placed on non-accrual status, all accrued interest is reversed from interest income, and a specific reserve is established for the difference between the loan balance and the collateral value less selling costs, or, in certain situations, the difference between the loan balance and the collateral value less selling costs is written off. Concurrently, a new appraisal or valuation may be ordered, depending on collateral type, currency of the most recent valuation, the size of the loan, and other factors appropriate to the loan. Upon receipt and acceptance of the new valuation, the loan may have an additional specific reserve or write down based on the updated collateral value. On an ongoing basis, appraisals or valuations may be done periodically on collateral dependent nonperforming loans and an additional specific reserve or write down will be made, if appropriate, based on the new collateral value.

Once a loan is placed on nonaccrual, it remains in nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrates the ability to pay and remain current. All payments made on nonaccrual loans are applied to the principal balance of the loan.

Nonperforming loans, expressed as a percentage of total loans, totaled 0.08% 0.12% at June 30, 2023 September 30, 2023 compared to 0.09% at December 31, 2022 and 0.27% 0.10% at June 30, 2022 September 30, 2022. The following table shows the distribution of nonperforming loans by class as of June 30, 2023 September 30, 2023 and 2022 and December 31, 2022:

Dollars in thousands	*Dollars in thousands*	**June 30, 2023**	December 31, 2022	June 30, 2022	*Dollars in thousands*	**September 30, 2023**	December 31, 2022	September 30, 2022
Commercial	Commercial				Commercial			
Real estate owner occupied	Real estate owner occupied	**$ —**	$ 193	$ 197	Real estate owner occupied	**$ —**	$ 193	$ 195
Real estate non-owner occupied	Real estate non-owner occupied	**—**	—	—	Real estate non-owner occupied	**—**	—	—
Construction	Construction	**30**	23	25	Construction	**29**	23	25
C&I	C&I	**655**	663	953	C&I	**714**	663	756
Multifamily	Multifamily	**—**	—	—	Multifamily	**—**	—	—
Municipal	Municipal	**—**	—	—	Municipal	**—**	—	—
Residential	Residential				Residential			
Term	Term	**533**	572	3,383	Term	**1,320**	572	637
Construction	Construction	—	—	—	Construction	—	—	—
Home Equity	Home Equity				Home Equity			
Revolving and term	Revolving and term	**458**	304	254	Revolving and term	**490**	304	247
Consumer	Consumer	**—**	—	—	Consumer	**—**	—	—
Total nonperforming loans	Total nonperforming loans	**$ 1,676**	$ 1,755	$ 4,812	Total nonperforming loans	**$ 2,553**	$ 1,755	$ 1,860
Allowance for credit losses as a percentage of nonperforming loans	Allowance for credit losses as a percentage of nonperforming loans	**1400.1 %**	952.9 %	336.7 %	Allowance for credit losses as a percentage of nonperforming loans	**913.5 %**	952.9 %	881.0 %

The amounts shown for total nonperforming loans do not include loans 90 or more days past due and still accruing interest. These are loans for which we expect to collect all amounts due, including past-due interest. As of June 30, 2023 September 30, 2023, there were loans totaling $318,000 that were 90 days or more days day past due and still accruing interest totaled $11,000, compared to $241,000 at December 31, 2022 and $76,000 none at June 30, 2022 September 30, 2022.

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

The Company adopted ASU 2022-02 effective January 1, 2023. Reporting of loan modifications subject to ASU 2022-02 may be found in Note 3 of the financial statements.

Past Due Loans

The Bank's overall loan delinquency ratio was 0.14% 0.10% at June 30, 2023 September 30, 2023 compared to 0.08% at December 31, 2022 and 0.18% 0.08% at June 30, 2022 September 30, 2022. Loans 90 days delinquent and accruing increased decreased from $241,000 at December 31, 2022 to $318,000 $11,000 as of June 30, 2023 September 30, 2023. The following table sets forth loan delinquencies as of June 30, 2023 September 30, 2023 and 2022 and December 31, 2022:

Dollars in thousands	*Dollars in thousands*	**June 30, 2023**	December 31, 2022	June 30, 2022	*Dollars in thousands*	**September 30, 2023**	December 31, 2022	September 30, 2022
Commercial	Commercial				Commercial			
Real estate owner occupied	Real estate owner occupied	**$ 37**	$ 193	$ 197	Real estate owner occupied	$ —	$ 193	$ 195
Real estate non-owner occupied	Real estate non-owner occupied	**—**	—	—	Real estate non-owner occupied	**—**	—	—
Construction	Construction	**8**	—	—	Construction	**15**	—	—
C&I	C&I	**536**	226	607	C&I	**670**	226	271
Multifamily	Multifamily	**—**	—	—	Multifamily	**—**	—	—
Municipal	Municipal	**—**	—	—	Municipal	**—**	—	—
Residential	Residential				Residential			
Term	Term	**1,639**	452	2,035	Term	**723**	452	322
Construction	Construction	**—**	—	—	Construction	**62**	—	—
Home Equity	Home Equity				Home Equity			
Revolving and term	Revolving and term	**370**	421	186	Revolving and term	**258**	421	502
Consumer	Consumer	**252**	167	122	Consumer	**260**	167	171
Total	Total	**$ 2,842**	$ 1,459	$ 3,147	Total	**$ 1,988**	$ 1,459	$ 1,461
Loans 30-89 days past due to total loans	Loans 30-89 days past due to total loans	**0.102 %**	0.039 %	0.094 %	Loans 30-89 days past due to total loans	**0.048 %**	0.039 %	0.055 %
Loans 90+ days past due and accruing to total loans	Loans 90+ days past due and accruing to total loans	**0.015 %**	0.013 %	0.004 %	Loans 90+ days past due and accruing to total loans	**0.001 %**	0.013 %	0.000 %
Loans 90+ days past due on non-accrual to total loans	Loans 90+ days past due on non-accrual to total loans	**0.020 %**	0.025 %	0.078 %	Loans 90+ days past due on non-accrual to total loans	**0.047 %**	0.025 %	0.024 %
Total past due loans to total loans	Total past due loans to total loans	**0.138 %**	0.077 %	0.176 %	Total past due loans to total loans	**0.096 %**	0.077 %	0.079 %

Potential Problem Loans and Loans in Process of Foreclosure

Potential problem loans consist of classified, accruing commercial and commercial real estate loans that were between 30 and 89 days past due. Such loans are characterized by weaknesses in the financial condition of borrowers or collateral deficiencies. Based on historical experience, the credit quality of some of these loans may improve due to improvements in the economy as well as changes in collateral values or the financial condition of the borrowers, while the credit quality of other loans may deteriorate, resulting in some amount of loss. At June 30, 2023 September 30, 2023 and December 31, 2022 there were no potential problem loans to report.

As of June 30, 2023 September 30, 2023, there were no four residential loans in the process of foreclosure. foreclosure totaling $459,000. The Bank's residential foreclosure process begins when a loan becomes 75 days past due at which time a Demand/Breach Letter is sent to the borrower. If the loan becomes 120 days past due, copies of the promissory note and mortgage deed are forwarded to the Bank's attorney for review and a complaint for foreclosure is then prepared. An authorized Bank officer signs the affidavit certifying the validity of the documents and verification of the past due amount which is then forwarded to the court. Once a Motion for Summary Judgment is granted, a POR begins which gives the customer 90 days to cure the default. A foreclosure auction date is then set 30 days from the POR expiration date if the default is not cured.

As of June 30, 2023 September 30, 2023, there were no commercial loans in the process of foreclosure. The Bank's commercial foreclosure process begins when a loan becomes 60 days past due, at which time a default letter is issued. At expiration of the period to cure default, which lasts 12 days after the issuing of the default letter, copies of the promissory note and mortgage deed are forwarded to the Bank's attorney for review. A Notice of Statutory Power of Sale is then prepared. This notice must be published for three consecutive weeks in a newspaper located in the county in which the property is located. A notice also must be issued to the mortgagor and all parties of interest 21 days prior to the sale. The foreclosure auction occurs and the Affidavit of Sale is recorded within the appropriate county within 30 days of the sale.

The Bank's written policies and procedures for foreclosures, along with implementation of same, are subject to annual review by its internal audit provider. The scope of this review includes loans held in portfolio and loans serviced for others.

There were no issues requiring management attention in the most recent review. Servicing for others includes loans sold to FHLMC, FNMA, and the FHLB FHLBB through its MPF program. The Bank follows the published guidelines of each investor. Loans serviced for FHLMC and FNMA have been sold without recourse, and the Bank has no liability for these loans in the event of foreclosure. A de minimis volume of loans has been sold to and serviced for MPF to date. The Bank retains a second loss layer credit enhancement obligation; no losses have been recorded on this credit enhancement obligation since the Bank started selling loans to MPF in 2013.

Other Real Estate Owned

OREO and repossessed assets are comprised of properties or other assets acquired through a foreclosure proceeding, or acceptance of a deed or title in lieu of foreclosure. Real estate acquired through foreclosure is carried at the lower of fair value less estimated cost to sell or the cost of the asset and is not included as part of the ACL totals. At June 30, 2023 there was one property owned with an OREO balance of $64,000, with no allowance for OREO losses. This compares to September 30, 2023, 2022 and December 31, 2022, when there were no OREO properties and June 30, 2022, when there were two properties owned with an OREO balance of $51,000, with no allowance for losses. The table below presents the composition of OREO at June 30, 2023 and 2022, and December 31, 2022:

Dollars in thousands	**June 30, 2023**	December 31, 2022	June 30, 2022
Carrying Value			
Residential			
Term	**$ 64**	$ —	$ 51
Construction	**—**	—	—
Home Equity			
Revolving and Term	**—**	—	—
Consumer	**—**	—	—
Total	**64**	—	51
Related Allowance			
Residential			
Term	**—**	—	—
Construction	**—**	—	—
Home Equity			
Revolving and Term	**—**	—	—
Consumer	**—**	—	—
Total	**—**	—	—
Net Value			
Residential			
Term	**64**	—	51
Construction	**—**	—	—
Home Equity			
Revolving and Term	**—**	—	—
Consumer	**—**	—	—
Total	**$ 64**	$ —	$ 51

Liquidity

Liquidity is the ability of a financial institution to meet maturing liability obligations, depositor withdrawal requests, and customer loan demand. The Bank's lead source of liquidity is deposits, including brokered deposits, which funded 86.4% 86.9% of total average assets in the first six nine months of 2023, up from 84.8% 85.0% a year ago. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLB FHLBB term or overnight advances, and other borrowings), cash flows from the securities portfolio and loan repayments. Securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs, although Management has no intention to do so at this time. While the generally preferred funding strategy is to attract and retain low cost deposits, our ability to do so is affected by competitive interest rates and terms in the marketplace.

The Bank has a detailed liquidity funding policy and a contingency funding plan that provide for prompt and comprehensive responses to unexpected demands for liquidity. Management has developed quantitative models to estimate needs for contingent funding that could result from unexpected outflows of funds in excess of "business as usual" cash flows. In Management's estimation, risks are concentrated amongst several major categories: runoff of in-market deposit balances, an inability to renew wholesale sources of funding, and materially increased utilization of available credit lines by borrowers. Of these, potential runoff of deposit balances would have the most significant impact on contingent liquidity. Our modeling attempts to quantify deposits at risk over selected time horizons. In addition to these outflow risks, several other "business as usual" factors enter into the calculation of the adequacy of contingent liquidity, including payment proceeds from loans and investment securities, maturing debt obligations and maturing time deposits. Stress testing analysis of liquidity resources under various scenarios is conducted no less than quarterly and results are reported to the ALCO. Borrowings supplement deposits as a source of liquidity; our borrowings typically consist of customer repurchase agreements and FHLB FHLBB advances. The Bank tests its borrowing capacity with the FRBB, the FHLB FHLBB and Fed Funds lines with other correspondent correspondents no less than annually; each has been tested within the past six nine months.

The Company defines its primary sources of contingent liquidity as cash & equivalents, unencumbered U.S. Government or Agency bond collateral, available capacity at FHLB, FHLBB, and available authorized brokered deposit issuance capacity. As of June 30, 2023 September 30, 2023, the Bank had primary sources of contingent liquidity of $773.0 million $891.0 million or 27.1% 30.6% of its total assets. It is Management's opinion that this is an appropriate level. In addition, the Bank has $179.0 million $169.0 million in borrowing capacity under the FRBB's Borrower in Custody program, $51.0 million in credit lines with correspondent banks, and $181.0 million $152.0 million in other unencumbered securities available as collateral for borrowing. These bring the Bank's total sources of liquidity to $1.184 billion $1.263 billion or 41.6% 43.4% of its total assets. The Bank established borrowing capacity of an additional $47.1 million at the FRBB under the BTFP introduced in March 2023, which is included in the primary sources of contingent liquidity total above. To date, no advances have been made under BTFP.

The ALCO establishes guidelines for liquidity in its Asset/Liability policy and monitors internal liquidity measures to manage liquidity exposure. Based on its assessment of the liquidity considerations described above, Management believes the Company's sources of funding will meet anticipated funding needs.

The Company is dependent upon the payment of cash dividends by the Bank to service its commitments. As the sole shareholder of the Bank, the Company is entitled to such dividends when and as declared by the Bank's Board of Directors from legally available funds. For the six-month nine-months periods ended June 30, 2023 September 30, 2023 and 2022 the Bank declared dividends to the

Company of $7.3 million $11.0 million and $6.9 million $10.4 million, respectively. The Bank's regulator, the OCC, may limit the amount of dividends declared and paid in a calendar year based upon certain factors. Further discussion may be found in Shareholder's Equity below.

Deposits

During the first six nine months of 2023, total deposits increased by $121.0 million $221.1 million or 5.1% 9.3% from December 31, 2022 levels. Low-cost deposits (demand, NOW, and savings accounts) decreased increased by $76.6 million $1.1 million or 5.8% 0.1% in the first six nine months of 2023. Money market deposits increased $15.6 million $78.4 million or 8.1% 40.7%, and certificates of deposit increased $182.0 million $141.5 million or 21.0% 16.3% as depositors shifted balances to higher cost product types and brokered certificates of deposit were issued to support earning asset growth.

Between June 30, 2022 September 30, 2022 and June 30, 2023 September 30, 2023, total deposits increased by $247.8 million $230.0 million or 11.0% 9.7%. Low-cost deposits decreased by $99.3 million $75.3 million or 7.4% 5.4%, money market accounts increased $1.9 million $82.3 million or 0.9% 43.6%, and certificates of deposit increased $345.2 million $223.0 million or 49.0% 28.4%.

Estimated uninsured deposits totaled $408.9 $480.5 million or 16.4% 18.5% of total deposits as of June 30, 2023 September 30, 2023, and $501.6 million or 21.1% of total deposits as of December 31, 2022. The company has pledged assets as collateral covering certain deposits; these amounts were $329.6 million $383.9 million and $350.4 million as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Borrowed Funds

The Company uses funding from the FHLBB, the FRBB and customer repurchase agreements enabling it to grow its balance sheet and its revenues. This funding may also be used to balance seasonal deposit flows or to carry out interest rate risk management strategies, and may be used to replace or supplement other sources of funding, including core deposits and certificates of deposit. During the six nine months ended June 30, 2023 September 30, 2023, borrowed funds increased $11.0 million decreased $20.5 million or 10.6% 19.8% from December 31, 2022, primarily due to FHLBB advances. split nearly evenly between FHLB advances and customer repurchase agreements . Between June 30, 2022 September 30, 2022 and June 30, 2023 September 30, 2023, borrowed funds decreased by $12.1 million $35.4 million or 9.6% 29.9%; the a majority of this reduction was primarily due to lower balances in customer repurchase agreements. FHLB advances.

Capital Resources

Shareholders' equity as of June 30, 2023 September 30, 2023 was $232.0 million $226.7 million, compared to $228.9 million as of December 31, 2022 and $227.7 million $219.9 million as of June 30, 2022 September 30, 2022. The Company's earnings in the first six nine months of 2023, net of dividends declared, added $7.7 million $11.3 million to shareholders' equity. The net unrealized loss on AFS securities, net of tax, presented in accordance with FASB ASC Topic 320 "Investments – Debt and Equity Securities" stands at $43.8 million $53.9 million as of June 30, 2023 September 30, 2023 and was $44.7 million as of December 31, 2022. Additional information about the net unrealized loss on AFS securities was provided in Note 2 of the Consolidated Financial Statements and in the Debit Securities section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

A cash dividend of $0.35 per share was declared in the second third quarter of 2023, one cent more than the $0.34 paid the previous four quarters. 2023. The dividend payout ratio, which is calculated by dividing dividends declared per share by basic earnings per share, was 49.29% 50.00% for the first six nine months of 2023 compared to 36.67% 36.63% for the same period in 2022. In determining future dividend payout levels, the Board of Directors carefully analyzes capital requirements and earnings retention, as set forth in the Company's Dividend Policy. The ability of the Company to pay cash dividends to its shareholders depends on receipt of dividends from its subsidiary, the Bank. The subsidiary may pay dividends to its parent out of so much of its net profits as the Bank's directors deem appropriate, subject to the limitation that the total of all dividends declared by the Bank in any calendar year may not exceed the total of its net profits of that year combined with its retained net profits of the preceding two years. The amount available for dividends in 2023 is this year's net income plus $49.6 million.

Financial institution regulators have established guidelines for minimum capital ratios for banks and bank holding companies. The net unrealized gain or loss on AFS securities is generally not included in computing regulatory capital. During the first quarter of 2015, the Company adopted the new Basel III regulatory capital framework as approved by the federal banking agencies. In order to avoid limitations on capital distributions, including dividend payments, the Company must hold a capital conservation buffer of 2.5% above the adequately capitalized risk-based capital ratios.

The Company met each of the well-capitalized ratio guidelines at June 30, 2023 September 30, 2023.

The following tables indicate the capital ratios for the Bank and the Company at June 30, 2023 September 30, 2023 and December 31, 2022.

As of June 30, 2023	Leverage	Common Equity Tier 1	Tier 1	Total Risk-Based

As of September 30, 2023						As of September 30, 2023	Leverage	Common Equity Tier 1	Tier 1	Total Risk-Based
Bank	Bank	8.52 %	12.37 %	12.37 %	13.62 %	Bank	8.48 %	12.47 %	12.47 %	13.72 %
Company	Company	8.68 %	12.42 %	12.42 %	13.66 %	Company	8.65 %	12.52 %	12.52 %	13.76 %
Adequately capitalized ratio	Adequately capitalized ratio	4.00 %	4.50 %	6.00 %	8.00 %	Adequately capitalized ratio	4.00 %	4.50 %	6.00 %	8.00 %
Adequately capitalized ratio plus capital conservation buffer	Adequately capitalized ratio plus capital conservation buffer	n/a %	7.00 %	8.50 %	10.50 %	Adequately capitalized ratio plus capital conservation buffer	n/a %	7.00 %	8.50 %	10.50 %
Well capitalized ratio (Bank only)	Well capitalized ratio (Bank only)	5.00 %	6.50 %	8.00 %	10.00 %	Well capitalized ratio (Bank only)	5.00 %	6.50 %	8.00 %	10.00 %

As of December 31, 2022	Leverage		Common Equity Tier 1		Tier 1		Total Risk-Based	
Bank	8.81	%	12.64	%	12.64	%	13.52	%
Company	9.01	%	12.70	%	12.70	%	13.58	%
Adequately capitalized ratio	4.00	%	4.50	%	6.00	%	8.00	%
Adequately capitalized ratio plus capital conservation buffer	n/a	%	7.00	%	8.50	%	10.50	%
Well capitalized ratio (Bank only)	5.00	%	6.50	%	8.00	%	10.00	%

The Bank maintains and annually updates a capital plan over a five year horizon; the capital plan was last updated in the second third quarter of 2022. 2023. Based upon reasonable assumptions of growth and operating performance, the base capital plan model projects that the Bank will be well capitalized throughout the five year period. The base model is also stress tested for interest rate risk from increasing and decreasing rates, credit risk in normal, elevated and severe loss scenarios, and combinations of interest rate and credit risk. In each stress scenario, the Bank maintained well capitalized status. To further validate its internal results, the Bank engaged a third party consultant during the first quarter of 2023 to conduct credit stress tests on its loan portfolio under six scenarios. Three of the scenarios emulated the Federal Reserve's DFAST, and three were developed by a leading forecasting firm. The consultant's report applied projected credit losses over a thirteen quarter horizon to the Bank's capital position as of March 31, 2023 with immediate effect. In each of the six scenarios the Bank remained well capitalized.

Off-Balance Sheet Financial Credit Exposures and Contractual Obligations

Derivative Financial Instruments Designated as Hedges

As part of its overall asset and liability management strategy, the Bank periodically uses derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets and/or liabilities so that change in interest rates does not have a significant adverse effect on net interest income. Derivative instruments that Management periodically uses as part of its interest rate risk management strategy may include interest rate swap agreements, interest rate floor agreements, and interest rate cap agreements.

At June 30, 2023 September 30, 2023, the Bank had four outstanding off-balance sheet, derivative instruments, designated as cash flow hedges and three four off-balance sheet, derivative instruments, designated as asset fair value hedges. These derivative instruments were interest rate swap agreements, with notional principal amounts totaling $105.0 million and $100.0 $150.0 million, respectively, and an unrealized gain of $680,000, $2.0 million, net of taxes. The notional amounts and net unrealized gain (loss) of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent the counterparty defaults in its responsibility to pay interest under the terms of the agreements. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that Management believes to be creditworthy and by limiting the amount of exposure to each counter-party. At June 30, 2023 September 30, 2023, the Bank's derivative instrument counterparties had a composite credit rating of "A-" based upon the ratings of several major credit rating agencies. The interest rate swap agreements were entered into by the Bank to limit its exposure to rising interest rates.

The Bank also enters into swap arrangements with qualified loan customers as a means to provide these customers with access to long-term fixed interest rates for borrowings, and simultaneously enters into a swap contract with an approved third- party financial institution. The terms of the contracts are designed to offset one another resulting in there being neither a net gain or a loss. The notional amounts of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent that either counter-party defaults in its responsibility to pay interest under the terms of the agreements. Credit risk is mitigated by prudent underwriting of the loan customer and financial institution counterparties. As of June 30, 2023 September 30, 2023, the Bank had six loan swap agreements in place with a total notional value of $73.7 million $73.1 million.

Contractual Obligations

The following table sets forth the contractual obligations of the Company as of June 30, 2023 September 30, 2023:

Dollars in thousands	Dollars in thousands	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Dollars in thousands	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Borrowed funds	Borrowed funds	**$ 114,481**	$ 89,401	$ 80	$ 25,000	$ —	Borrowed funds	**$ 82,993**	$ 82,993	$ —	$ —	$ —
Operating leases	Operating leases	**806**	110	195	84	417	Operating leases	**778**	106	195	67	410
Certificates of deposit	Certificates of deposit	**1,049,629**	628,765	339,012	81,852	—	Certificates of deposit	**1,009,166**	608,788	339,093	61,285	—
Total	Total	**$ 1,164,916**	$ 718,276	$ 339,287	$ 106,936	$ 417	Total	**$ 1,092,937**	$ 691,887	$ 339,288	$ 61,352	$ 410
Total loan commitments and unused lines of credit	Total loan commitments and unused lines of credit	**$ 313,910**	$ 313,910	$ —	$ —	$ —	Total loan commitments and unused lines of credit	**$ 334,148**	$ 334,148	$ —	$ —	$ —

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Market-Risk Management

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates. The First Bancorp, Inc.'s market risk is composed primarily of interest rate risk. The Bank's ALCO is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. All guidelines and policies established by ALCO have been approved by the Board of Directors.

Asset/Liability Management

The primary goal of asset/liability management is to maximize net interest income within the interest rate risk limits set by ALCO. Interest rate risk is monitored through the use of two complementary measures: static gap analysis and earnings simulation modeling. While each measurement has limitations, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk in the Company, the level of risk through time, and the amount of exposure to changes in certain interest rate relationships.

Static gap analysis measures the amount of repricing risk embedded in the balance sheet at a point in time. It does so by comparing the differences in the repricing characteristics of assets and liabilities. A gap is defined as the difference between the principal amount of assets and liabilities that reprice within a specified time period. The Company's cumulative one-year gap at June 30, 2023 September 30, 2023 was (3.76) (9.47)% of total assets compared to (5.60)% of total assets at December 31, 2022. Core deposits with non-contractual maturities are presented based upon historical patterns of balance attrition and pricing behavior, which are reviewed at least annually.

The gap repricing distributions include principal cash flows from residential mortgage loans and mortgage-backed securities in the time frames in which they are expected to be received. Mortgage prepayments are estimated by applying industry median projections of prepayment speeds to portfolio segments based on coupon range and loan age.

A summary of the Company's static gap, as of June 30, 2023 September 30, 2023, is presented in the following table:

Dollars in thousands	Dollars in thousands	0-90 Days	90-365 Days	1-5 Years	5+ Years	Dollars in thousands	0-90 Days	90-365 Days	1-5 Years	5+ Years
Investment securities at amortized cost (HTM) and fair value (AFS)	Investment securities at amortized cost (HTM) and fair value (AFS)	$ 35,621	$ 25,472	$ 143,109	$ 464,140	Investment securities at amortized cost (HTM) and fair value (AFS)	$ 45,117	$ 24,676	$ 151,747	$ 450,806
Restricted stock, at cost	Restricted stock, at cost	4,190	—	—	1,037	Restricted stock, at cost	2,823	—	—	1,037
Loans held for sale	Loans held for sale	—	—	—	—	Loans held for sale	—	—	—	268
Loans	Loans	587,613	228,029	932,231	313,079	Loans	482,344	230,027	1,056,092	311,396
Other interest-earning assets	Other interest-earning assets	—	26,345	—	—	Other interest-earning assets	—	26,511	—	—
Non-rate-sensitive assets	Non-rate-sensitive assets	13,350	—	—	100,599	Non-rate-sensitive assets	52,843	—	—	108,452
Total assets	**Total assets**	640,774	279,846	1,075,340	878,855	**Total assets**	583,127	281,214	1,207,839	871,959

Interest-bearing deposits	Interest-bearing deposits	512,082	450,677	498,730	790,168	Interest-bearing deposits	690,724	422,421	402,343	817,348
Borrowed funds	Borrowed funds	66,000	—	80	—	Borrowed funds	30,000	78	—	—
Non-rate-sensitive liabilities and equity	Non-rate-sensitive liabilities and equity	—	—	—	557,078	Non-rate-sensitive liabilities and equity	—	—	—	581,225
Total liabilities and equity	**Total liabilities and equity**	578,082	450,677	498,810	1,347,246	**Total liabilities and equity**	720,724	422,499	402,343	1,398,573
Period gap	**Period gap**	$ 62,692	$ (170,831)	$ 576,530	$ (468,391)	**Period gap**	$ (137,597)	$ (141,285)	$ 805,496	$ (526,614)
Percent of total assets	Percent of total assets	2.18 %	(5.94) %	20.05 %	(16.29) %	Percent of total assets	(4.67) %	(4.80) %	27.36 %	(17.89) %
Cumulative gap (current)	Cumulative gap (current)	$ 62,692	$ (108,139)	$ 468,391	$ —	Cumulative gap (current)	$ (137,597)	$ (278,882)	$ 526,614	$ —
Percent of total assets	Percent of total assets	2.18 %	(3.76) %	16.29 %	— %	Percent of total assets	(4.67) %	(9.47) %	17.89 %	— %

The earnings simulation model forecasts capture the impact of changing interest rates on one-year and two-year net interest income. The modeling process calculates changes in interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on the Company's consolidated balance sheet. None of the assets used in the simulation are held for trading purposes. The modeling is done for a variety of scenarios that incorporate changes in the absolute level of interest rates as well as basis risk, as represented by changes in the shape of the yield curve and changes in interest rate relationships. Management evaluates the effects on income of alternative interest rate scenarios against earnings in a stable interest rate environment. This analysis is also most useful in determining the short-run earnings exposures to changes in customer behavior involving loan payments and deposit additions and withdrawals.

The Company's most recent simulation model calculates projected impact on net interest income in scenarios where short-term interest rates gradually decrease by two percentage points, gradually decreases by one percentage point, and where short-term rates gradually increase by two percentage points. The Company's modeling as of June 30, 2023 September 30, 2023 projects net interest income would increase by approximately 0.1% 2.8% if short-term rates affected by FOMC actions fall gradually by two percentage points over the next year, and would increase by approximately 0.4% 1.7% if short term rates gradually fall by one percentage point over the next year; net interest income would decrease by approximately 3.5% 4.8% if rates rise gradually by two percentage points over the next year. Each scenario is well within ALCO's policy limit of a decrease in net interest income of no more than 10.0% given a 2.0% move in interest rates, up or down. Management believes this reflects a reasonable interest rate risk position. In year two, and assuming no additional movement in rates, the model forecasts that net interest income would be higher than that earned in the first year of a stable rate environment by 10.6% 18.5% in the two percentage point falling-rate scenario, and higher by 10.6% 16.1% in the one percentage point falling rate scenario; net interest income would be lower than that earned in a stable rate environment by 2.9% 1.0% in a two percentage point rising rate scenario, when compared to the year-one base scenario. Each year two scenario is well within ALCO's policy limit of a decrease of no more than 20% given a 2.0% move in interest rates, up or down. A summary of the Bank's interest rate risk simulation modeling, as of June 30, 2023 September 30, 2023 and December 31, 2022 is presented in the following table:

Changes in Net Interest Income	**Changes in Net Interest Income**	**June 30, 2023**	December 31, 2022	**Changes in Net Interest Income**	**September 30, 2023**	December 31, 2022
Year 1	**Year 1**			**Year 1**		
Projected change if rates decrease by 1.0%	Projected change if rates decrease by 1.0%	**0.4%**	0.2%	Projected change if rates decrease by 1.0%	**1.7%**	0.2%
Projected change if rates decrease by 2.0%	Projected change if rates decrease by 2.0%	**0.1%**	0.0%	Projected change if rates decrease by 2.0%	**2.8%**	0.0%
Projected change if rates increase by 2.0%	Projected change if rates increase by 2.0%	**(3.5)%**	(3.8)%	Projected change if rates increase by 2.0%	**(4.8)%**	(3.8)%
Year 2	**Year 2**			**Year 2**		
Projected change if rates decrease by 1.0%	Projected change if rates decrease by 1.0%	**10.6%**	6.8%	Projected change if rates decrease by 1.0%	**16.1%**	6.8%
Projected change if rates decrease by 2.0%	Projected change if rates decrease by 2.0%	**10.6%**	5.7%	Projected change if rates decrease by 2.0%	**18.5%**	5.7%
Projected change if rates increase by 2.0%	Projected change if rates increase by 2.0%	**(2.9)%**	(3.4)%	Projected change if rates increase by 2.0%	**(1.0)%**	(3.4)%

This dynamic simulation model includes assumptions about how the balance sheet is likely to evolve through time and in different interest rate environments. Loans and deposits are projected to maintain stable balances. All maturities, calls and prepayments in the securities portfolio are assumed to be reinvested in similar assets. Mortgage loan prepayment assumptions are developed from industry median estimates of prepayment speeds for portfolios with similar coupon ranges and seasoning. Non-contractual deposit volatility and pricing are assumed to follow historical patterns. The sensitivities of key assumptions are analyzed annually and reviewed by ALCO.

This sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, pricing decisions on loans and deposits, and reinvestment/ replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive ability of these assumptions, including how customer preferences or competitor influences might change.

Interest Rate Risk Management

A variety of financial instruments can be used to manage interest rate sensitivity. These may include investment securities, interest rate swaps, and interest rate caps and floors. Frequently called interest rate derivatives, interest rate swaps, caps and floors have characteristics similar to securities but possess the advantages of customization of the risk-reward profile of the instrument, minimization of balance sheet leverage and improvement of liquidity. As of June 30, 2023 September 30, 2023, the Company was using interest rate swaps for interest rate risk management.

The Company engages an independent consultant to periodically review its interest rate risk position, as well as the effectiveness of simulation modeling and reasonableness of assumptions used. As of June 30, 2023 September 30, 2023, there were no significant differences between the views of the independent consultant and Management regarding the Company's interest rate risk exposure. Management expects interest rates will increase slightly in the next year and believes that the current level of interest risk is acceptable.

Cessation of LIBOR

The Company adopted SOFR as its replacement reference rate index for each of the customer loan interest rate swap contracts that were tied to a LIBOR tenor. The six contracts have maturity dates of December 19, 2029, August 21, 2030, April 1, 2031, July 1, 2035, October 1, 2035 and October 1, 2039. The necessary actions to amend these legacy contracts to incorporate the new replacement reference rate index was undertaken during completed in the second quarter 2023.

Item 4: Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of June 30, 2023 September 30, 2023, the end of the quarter covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and the Company's management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2023 September 30, 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company reviews its disclosure controls and procedures, which may include its internal controls over financial reporting on an ongoing basis, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

Part II – Other Information

Item 1 – Legal Proceedings

The Company was not involved in any legal proceedings requiring disclosure under Item 103 of Regulation S-K during the reporting period.

Item 1A – Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company's Form 10-K for the year ended December 31, 2022.

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

a. None

b. None

c. The Company made the following repurchases of its common stock in the six nine months ended June 30, 2023 September 30, 2023:

Month	Month	Shares Purchased	Average Price Per Share	Total shares purchased as part of publicly announced repurchase plans	Maximum number of shares that may be purchased under the plans	Month	Shares Purchased	Average Price Per Share	Total shares purchased as part of publicly announced repurchase plans	Maximum number of shares that may be purchased under the plans
January 2023	January 2023	8,090	$ 29.41	—	—	January 2023	8,090	$ 29.41	—	—
February 2023	February 2023	—	—	—	—	February 2023	—	—	—	—
March 2023	March 2023	—	—	—	—	March 2023	—	—	—	—
April 2023	April 2023	—	—	—	—	April 2023	—	—	—	—

May 2023	May 2023	555	23.22	—	—	May 2023	555	23.22	—	—
June 2023	June 2023	—	—	—	—	June 2023	—	—	—	—
July 2023						July 2023	—	—	—	—
August 2023						August 2023	—	—	—	—
September 2023						September 2023	—	—	—	—
		8,645	$ 26.32		—					
		8,645	$ 26.32		—					

Item 3 – Default Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not applicable.

Item 5 - Other Information

None.

Item 6 – Exhibits

Exhibit 3.2 Amendment to the Registrant's Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on May 1, 2008).

Exhibit 3.3 Amendment to the Registrant's Articles of Incorporation (incorporated by reference to the Definitive Proxy Statement for the Company's 2008 Annual Meeting filed on March 14, 2008).

Exhibit 3.4 Amendment to the Registrant's Articles of Incorporation authorizing issuance of preferred stock (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed on December 29, 2008).

Exhibit 3.5 Conformed Copy of the Company's Bylaws (incorporated by reference to Exhibit 3.5 to the Company's Form 10-K filed March 10, 2017).

Exhibit 3.6 Amendment to the Company Bylaws (incorporated by reference to Exhibit 3.6 to the Company's Form 8-K filed under item 5.03 on December 20, 2019.

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm (incorporated by reference to Exhibit 2.3 to the Company's Form 10-K filed March 10, 2023.

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Rule 13A-14(A) of The Securities Exchange Act of 1934, furnished within.

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Rule 13A-14(A) of The Securities Exchange Act of 1934, furnished within.

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, furnished within.

Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, furnished within.

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF XBRL Taxonomy Extension Definitions Linkbase

Exhibit 104.Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

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.

THE FIRST BANCORP, INC.

/s/ Tony C. McKim

Tony C. McKim

President & Chief Executive Officer

Date: August 4, 2023 November 3, 2023

/s/ Richard M. Elder
Richard M. Elder
Executive Vice President & Chief Financial Officer

Date: August 4, 2023 November 3, 2023

Exhibit 31.1

Certification of Chief Executive Officer Under Section 302 of the Sarbanes-Oxley Act of 2002

I, Tony C. McKim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The First Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of 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 4, 2023 November 3, 2023

/s/ Tony C. McKim
Tony C. McKim
President & Chief Executive Officer
The First Bancorp, Inc.

Exhibit 31.2

Certification of Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard M. Elder, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The First Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of 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 4, 2023 November 3, 2023

/s/ Richard M. Elder
Richard M. Elder
Executive Vice President & Chief Financial Officer
The First Bancorp, Inc.

<u>Exhibit 32.1</u>

Certification of Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officer of The First Bancorp, Inc. (the "Company") hereby certifies that the Company's quarterly report on Form 10-Q for the period ended June 30, 2023 September 30, 2023 to which this certification is being furnished as an exhibit (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: August 4, 2023 November 3, 2023

/s/ Tony C. McKim
Tony C. McKim
President & Chief Executive Officer
The First Bancorp, Inc.

Exhibit 32.2

Certification of Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officer of The First Bancorp, Inc. (the "Company") hereby certifies that the Company's quarterly report on Form 10-Q for the period ended June 30, 2023 September 30, 2023 to which this certification is being furnished as an exhibit (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: August 4, 2023 November 3, 2023

/s/ Richard M. Elder
Richard M. Elder
Executive Vice President & Chief Financial Officer
The First Bancorp, Inc.

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