

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 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 **September 30, 2024**
or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission File Number: **001-38647**

FVCBankcorp, Inc.

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of
incorporation or organization)

47-5020283

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

11325 Random Hills Road

Suite 240

Fairfax, Virginia

(Address of principal executive offices)

22030

(Zip Code)

(703) 436-3800

(Registrant's telephone number, including area code)

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

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|--------------------------------|-------------------|---|
| Common Stock, \$0.01 par value | FVCB | The Nasdaq Stock Market, LLC |

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

18,204,455 shares of common stock, par value \$0.01 per share, outstanding as of November 13, 2024

FVCBankcorp, Inc.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

FVCBankcorp, Inc. and Subsidiary
Consolidated Statements of Condition
September 30, 2024 and December 31, 2023
(In thousands, except share data)

| | September 30, 2024 | December 31, 2023 |
|---|---------------------|---------------------|
| | (Unaudited) | |
| Assets | | |
| Cash and due from banks | \$ 10,051 | \$ 8,042 |
| Interest-bearing deposits at other financial institutions | 167,575 | 52,480 |
| Securities held-to-maturity (fair value of \$260 thousand and \$252 thousand at September 30, 2024 and December 31, 2023, respectively), net of allowance for credit losses of \$0 and \$0 at September 30, 2024 and December 31, 2023, respectively. | 265 | 264 |
| Securities available-for-sale, at fair value | 165,031 | 171,595 |
| Restricted stock, at cost | 8,186 | 9,488 |
| Loans, net of allowance for credit losses of \$19.1 million and \$18.9 million at September 30, 2024 and December 31, 2023, respectively | 1,855,879 | 1,809,693 |
| Premises and equipment, net | 866 | 997 |
| Accrued interest receivable | 10,688 | 10,321 |
| Prepaid expenses | 3,993 | 3,506 |
| Deferred tax assets, net | 14,482 | 14,823 |
| Goodwill and intangibles, net | 7,457 | 7,585 |
| Bank owned life insurance | 9,148 | 56,823 |
| Operating lease right-of-use assets | 7,097 | 8,395 |
| Other assets | 32,564 | 36,546 |
| Total assets | \$ 2,293,282 | \$ 2,190,558 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing | \$ 357,028 | \$ 396,724 |
| Interest-bearing checking | 615,839 | 576,471 |
| Savings and money market | 491,496 | 320,498 |
| Time deposits | 246,527 | 306,349 |
| Wholesale deposits | 249,877 | 245,250 |
| Total deposits | \$ 1,960,767 | \$ 1,845,292 |
| Other borrowed funds | \$ 57,000 | \$ 85,000 |
| Subordinated notes, net of issuance costs | 19,666 | 19,620 |
| Accrued interest payable | 3,313 | 2,415 |
| Operating lease liabilities | 7,727 | 9,241 |
| Reserves for unfunded commitments | 510 | 602 |
| Accrued expenses and other liabilities | 13,469 | 11,271 |
| Total liabilities | \$ 2,062,452 | \$ 1,973,441 |
| Commitments and Contingent Liabilities | | |
| Stockholders' Equity | | |
| | 2024 | 2023 |
| Preferred stock, \$0.01 par value | | |
| Shares authorized | 1,000,000 | 1,000,000 |
| Shares issued and outstanding | — | — |
| Common stock, \$0.01 par value | | |
| Shares authorized | 20,000,000 | 20,000,000 |
| Shares issued and outstanding | 18,204,455 | 17,806,995 |
| Additional paid-in capital | 127,302 | 125,209 |
| Retained earnings | 126,067 | 115,890 |
| Accumulated other comprehensive (loss), net | (22,721) | (24,160) |
| Total stockholders' equity | \$ 230,830 | \$ 217,117 |
| Total liabilities and stockholders' equity | \$ 2,293,282 | \$ 2,190,558 |

FVCBankcorp, Inc. and Subsidiary
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2024 and 2023
(In thousands, except per share data)
(Unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|--|-----------|---|------------|
| | 2024 | 2023 | 2024 | 2023 |
| Interest and Dividend Income | | | | |
| Interest and fees on loans | \$ 27,381 | \$ 25,243 | \$ 79,152 | \$ 73,625 |
| Interest and dividends on securities held-to-maturity | 1 | 2 | 4 | 4 |
| Interest and dividends on securities available-for-sale | 915 | 1,217 | 2,823 | 3,852 |
| Dividends on restricted stock | 134 | 89 | 477 | 461 |
| Interest on deposits at other financial institutions | 802 | 876 | 1,575 | 2,022 |
| Total interest and dividend income | \$ 29,233 | \$ 27,427 | \$ 84,031 | \$ 79,964 |
| Interest Expense | | | | |
| Interest on deposits | \$ 14,199 | \$ 13,799 | \$ 39,634 | \$ 34,592 |
| Interest on federal funds purchased | — | — | 2 | 11 |
| Interest on short-term debt | 563 | 35 | 2,947 | 2,851 |
| Interest on subordinated notes | 257 | 258 | 773 | 773 |
| Total interest expense | \$ 15,019 | \$ 14,092 | \$ 43,356 | \$ 38,227 |
| Net Interest Income | \$ 14,213 | \$ 13,335 | \$ 40,675 | \$ 41,737 |
| Provision (Release of) credit losses | (200) | (729) | 6 | 132 |
| Net interest income after provision for credit losses | \$ 14,413 | \$ 14,064 | \$ 40,669 | \$ 41,605 |
| Noninterest Income | | | | |
| Service charges on deposit accounts | \$ 301 | \$ 284 | \$ 841 | \$ 731 |
| BOLI income | 70 | 373 | 326 | 1,067 |
| (Loss) income from minority membership interests | 278 | (650) | 426 | (1,431) |
| Loss on sale of securities available-for-sale | — | — | — | (4,592) |
| Other income | 166 | 218 | 488 | 714 |
| Total non-interest income (loss) | \$ 815 | \$ 225 | \$ 2,081 | \$ (3,511) |
| Noninterest Expenses | | | | |
| Salaries and employee benefits | \$ 4,852 | \$ 5,267 | \$ 14,073 | \$ 15,374 |
| Occupancy and equipment expense | 465 | 547 | 1,502 | 1,785 |
| Data processing and network administration | 727 | 601 | 2,029 | 1,834 |
| Internet banking and software expense | 706 | 660 | 2,130 | 1,804 |
| State franchise taxes | 589 | 584 | 1,768 | 1,753 |
| FDIC insurance | 360 | 431 | 1,081 | 968 |
| Marketing, business development and advertising | 281 | 167 | 747 | 527 |
| Loan related (benefit)/expenses | 241 | (189) | 686 | 199 |
| Director's fee | 150 | 180 | 465 | 540 |
| Core deposit intangible amortization | 40 | 50 | 127 | 157 |
| Other operating expenses | 784 | 750 | 2,208 | 2,320 |
| Total noninterest expenses | \$ 9,195 | \$ 9,048 | \$ 26,816 | \$ 27,261 |
| Net income before income tax expense | \$ 6,033 | \$ 5,241 | \$ 15,934 | \$ 10,833 |
| Income tax expense | 1,364 | 1,202 | 5,770 | 1,941 |
| Net income | \$ 4,669 | \$ 4,039 | \$ 10,164 | \$ 8,892 |
| Earnings per share, basic | \$ 0.26 | \$ 0.23 | \$ 0.56 | \$ 0.50 |
| Earnings per share, diluted | \$ 0.25 | \$ 0.22 | \$ 0.55 | \$ 0.49 |

See Notes to Consolidated Financial Statements.

FVCBankcorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
For the Three and Nine Months Ended September 30, 2024 and 2023
(In thousands)
(Unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|--|-----------------|---|------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Net income | \$ 4,669 | \$ 4,039 | \$ 10,164 | \$ 8,892 |
| Other comprehensive income (loss): | | | | |
| Unrealized (loss) gain on securities available for sale, net of tax expense of \$1,446 for the three months ended September 30, 2024, and net of tax expense of \$1,012 for the nine months ended September 30, 2024, and net of tax (benefit) of (\$1,987) for the three months ended September 30, 2023, and net of tax (benefit) of (\$1,979) for the nine months ended September 30, 2023 | 5,127 | (7,046) | 3,590 | (7,018) |
| Unrealized (loss) gain on interest rate swaps, net of tax (benefit) of (\$1,607) and (\$607) for the three and nine months ended September 30, 2024, respectively, and net of tax expense of \$839 thousand and \$1,458 thousand for the three and nine months ended September 30, 2023, respectively. | (5,696) | 2,974 | (2,151) | 5,169 |
| Reclassification adjustment for securities losses realized in income, net of tax expense/benefit of \$0 and \$0 for the three and nine months ended September 30, 2024, respectively, and \$0 and \$1,010 for the three and nine months ended September 30, 2023, respectively. | — | — | — | 3,582 |
| Total other comprehensive income (loss) | \$ (569) | \$ (4,072) | \$ 1,439 | \$ 1,733 |
| Total comprehensive income (loss) | \$ 4,100 | \$ (33) | \$ 11,603 | \$ 10,625 |

See Notes to Consolidated Financial Statements.

FVCBankcorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2024 and 2023
(In thousands)
(Unaudited)

| | 2024 | 2023 |
|---|--------------|-------------|
| Cash Flows From Operating Activities | | |
| Net income | \$ 10,164 | \$ 8,892 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 215 | 306 |
| Provision for credit losses | 6 | 132 |
| Net amortization of premium of securities | 180 | 322 |
| Net accretion of deferred loan costs and fees | (992) | (1,349) |
| Net accretion of acquisition accounting adjustments | — | (421) |
| Loss on sale of available-for-sale investment securities | — | 4,592 |
| Loss (income) from minority membership interest | (426) | 1,431 |
| Amortization of subordinated debt issuance costs | 13 | 41 |
| Core deposits intangible amortization | 127 | 157 |
| Tax credits amortization | — | 95 |
| Equity-based compensation expense | 620 | 909 |
| BOLI income | (326) | (1,067) |
| Changes in assets and liabilities: | | |
| Increase (decrease) in accrued interest receivable, prepaid expenses and other assets | 2,311 | (9,626) |
| Increase in accrued interest payable, accrued expenses and other liabilities | 1,492 | 7,326 |
| Net cash provided by operating activities | \$ 13,384 | \$ 11,740 |
| Cash Flows From Investing Activities | | |
| Increase in interest-bearing deposits at other financial institutions | \$ (115,095) | \$ (15,140) |
| Proceeds from sales or maturity of securities available-for-sale | 1,200 | 35,778 |
| Proceeds from repayments of securities available-for-sale | 9,784 | 16,814 |
| Net redemption of restricted stock | 1,302 | 7,867 |
| Net increase (decrease) in loans | (45,200) | (7,571) |
| Proceeds from surrender of bank-owned life insurance | 47,774 | — |
| Purchases of premises and equipment, net | (125) | (133) |
| Net cash provided by (used in) investing activities | \$ (100,360) | \$ 37,615 |
| Cash Flows From Financing Activities | | |
| Net increase in non-maturing deposits | \$ 170,670 | \$ 9,926 |
| Net (decrease) increase in time deposits | (55,195) | 155,876 |
| Redemption of subordinated debt, net | 32 | — |
| Decrease in federal funds purchased | — | (30,000) |
| Net decrease in FHLB advances | (28,000) | (185,000) |
| Payments of withholdings taxes due to restricted stock vestings | (178) | (113) |
| Repurchase of shares of common stock | — | (1,448) |
| Common stock issuance | 1,656 | 1,711 |
| Net cash (used in) provided by financing activities | \$ 88,985 | \$ (49,048) |
| Net increase in cash and cash equivalents | \$ 2,009 | \$ 307 |
| Cash and cash equivalents, beginning of year | 8,042 | 7,253 |
| Cash and cash equivalents, end of period | \$ 10,051 | \$ 7,560 |

See Notes to Consolidated Financial Statements.

FVCBankcorp, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the Three and Nine Months Ended September 30, 2024 and 2023
(In thousands)
(Unaudited)

| | Shares | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss), net | Total |
|--|--------|-----------------|----------------------------------|----------------------|---|------------|
| Balance at December 31, 2022 | 17,475 | \$ 175 | \$ 123,886 | \$ 114,888 | \$ (36,567) | \$ 202,382 |
| Net income | — | — | — | 8,892 | — | 8,892 |
| Impact of adoption of ASU 2016-13 | — | — | — | (2,808) | — | (2,808) |
| Other comprehensive income | — | — | — | — | 1,733 | 1,733 |
| Repurchase of common stock | (116) | (1) | (1,447) | (12) | — | (1,460) |
| Common stock issuance for options exercised, net | 360 | 4 | 1,707 | — | — | 1,711 |
| Vesting of restricted stock grants, net | 83 | — | (113) | — | — | (113) |
| Stock-based compensation expense | — | — | 909 | — | — | 909 |
| Balance at September 30, 2023 | 17,802 | \$ 178 | \$ 124,942 | \$ 120,960 | \$ (34,834) | \$ 211,246 |
| Balance at June 30, 2023 | 17,783 | 178 | 124,713 | 116,922 | (30,762) | 211,051 |
| Net income | — | — | — | 4,039 | — | 4,039 |
| Other comprehensive loss | — | — | — | — | (4,072) | (4,072) |
| Repurchase of common stock | — | — | — | (1) | — | (1) |
| Vesting of restricted stock grants, net | 19 | — | (30) | — | — | (30) |
| Stock-based compensation expense | — | — | 259 | — | — | 259 |
| Balance at September 30, 2023 | 17,802 | \$ 178 | \$ 124,942 | \$ 120,960 | \$ (34,834) | \$ 211,246 |
| Balance at December 31, 2023 | 17,807 | 178 | 125,209 | 115,890 | (24,160) | 217,117 |
| Net income | — | — | — | 10,164 | — | 10,164 |
| Impact of adoption of ASU 2023-02 | — | — | — | 13 | — | 13 |
| Other comprehensive income | — | — | — | — | 1,439 | 1,439 |
| Common stock issuance for options exercised | 346 | 4 | 1,652 | — | — | 1,656 |
| Vesting of restricted stock grants, net | 51 | — | (179) | — | — | (179) |
| Stock-based compensation expense | — | — | 620 | — | — | 620 |
| Balance at September 30, 2024 | 18,204 | \$ 182 | \$ 127,302 | \$ 126,067 | \$ (22,721) | \$ 230,830 |
| Balance at June 30, 2024 | 18,186 | 182 | 127,063 | 121,398 | (22,152) | 226,491 |
| Net income | — | — | — | 4,669 | — | 4,669 |
| Other comprehensive loss | — | — | — | — | (569) | (569) |
| Common stock issuance for options exercised | 18 | — | 116 | — | — | 116 |
| Vesting of restricted stock grants, net | — | — | (127) | — | — | (127) |
| Stock-based compensation expense | — | — | 250 | — | — | 250 |
| Balance at September 30, 2024 | 18,204 | \$ 182 | \$ 127,302 | \$ 126,067 | \$ (22,721) | \$ 230,830 |

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

Note 1. Organization and Summary of Significant Accounting Policies

Organization

FVCBankcorp, Inc. (the "Company"), a Virginia corporation, was formed in 2015 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Fairfax, Virginia. The Company conducts its business activities through the branch offices of its wholly owned subsidiary bank, FVCbank (the "Bank"). The Company exists primarily for the purposes of holding the stock of its subsidiary, the Bank.

The Bank was organized under the laws of the Commonwealth of Virginia to engage in a general banking business serving the Washington, D.C. and Baltimore metropolitan areas. The Bank commenced operations on November 27, 2007 and is a member of the Federal Reserve System (the "Federal Reserve"). It is subject to the regulations of the Board of Governors of the Federal Reserve and the State Corporation Commission of Virginia. Consequently, it undergoes periodic examinations by these regulatory authorities.

On August 31, 2021, the Bank made an investment in Atlantic Coast Mortgage, LLC ("ACM") for \$ 20.4 million. As a result of this investment, the Bank obtained a 28.7% ownership interest in ACM. The investment is accounted for using the equity method of accounting. In addition, the Bank provides a warehouse lending facility to ACM, which includes a construction-to-permanent financing line, and has developed portfolio mortgage products to diversify the Bank's held for investment loan portfolio.

On December 15, 2022, the Company announced that the Board of Directors approved a five-for-four split of the Company's common stock in the form of a 25% stock dividend for shareholders of record on January 9, 2023, payable on January 31, 2023. Earnings per share and all other per share information reflected in the Company's consolidated financial statements have been adjusted for the five-for-four split of the Company's common stock for comparative purposes.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements; however, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's audited financial statements for the year ended December 31, 2023. Certain prior period amounts have been reclassified to conform to current period presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All material intercompany balances and transactions have been eliminated in consolidation.

Significant Accounting Policies

The accounting and reporting policies of the Company are in accordance with GAAP and conform to general practices within the banking industry.

Bank Owned Life Insurance ("BOLI")

The Company purchased life insurance policies on certain key employees. BOLI is recorded at the amount that can be realized under the insurance contract at the balance date, which is the cash surrender value. The increase in the cash surrender value over time is recorded as other noninterest income. The Company monitors the financial strength and condition of the counterparties.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

During the first quarter of 2024, the Company surrendered certain BOLI policies with an aggregate cash surrender value of \$ 48.0 million. Upon their surrender, the Company received a cash payout and was required to accrue additional income tax on the appreciation of those policies which had previously been treated as tax-exempt income. This resulted in additional statutory income tax expense of \$1.6 million and tax penalties of \$722 thousand. The tax penalties related to the surrender of the BOLI were recorded in income tax expense.

Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

Recently Adopted Accounting Developments

In March 2023, FASB issued ASU 2023-02, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. ASU 2023-02 was effective for the Bank on January 1, 2024. The Company recorded an adjustment of \$13 thousand to shareholders' equity as of January 1, 2024.

In June 2022, FASB issued ASU 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions." ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. ASU 2022-03 was effective for the Company on January 1, 2024. ASU 2022-03 resulted in no material impact to the Company's consolidated financial statements.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

Note 2. Securities

Amortized cost and fair values of securities held-to-maturity and securities available-for-sale as of September 30, 2024 and December 31, 2023, are as follows:

| | September 30, 2024 | | | |
|---|--------------------|------------------------------|---------------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| Held-to-maturity | | | | |
| Securities of state and local municipalities tax exempt | \$ 265 | \$ — | \$ (5) | \$ 260 |
| Total Held-to-maturity Securities | <u>\$ 265</u> | <u>\$ —</u> | <u>\$ (5)</u> | <u>\$ 260</u> |
| Available-for-sale | | | | |
| Securities of U.S. government and federal agencies | \$ 9,998 | \$ — | \$ (1,154) | \$ 8,844 |
| Securities of state and local municipalities tax exempt | 1,000 | — | (2) | 998 |
| Securities of state and local municipalities taxable | 416 | — | (48) | 368 |
| Corporate bonds | 19,000 | — | (2,548) | 16,452 |
| SBA pass-through securities | 48 | — | (3) | 45 |
| Mortgage-backed securities | 160,517 | — | (25,078) | 135,439 |
| Collateralized mortgage obligations | 3,561 | — | (676) | 2,885 |
| Total Available-for-sale Securities | <u>\$ 194,540</u> | <u>\$ —</u> | <u>\$ (29,508)</u> | <u>\$ 165,031</u> |
| | | | | |
| | December 31, 2023 | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| Held-to-maturity | | | | |
| Securities of state and local municipalities tax exempt | \$ 264 | \$ — | \$ (12) | \$ 252 |
| Total Held-to-maturity Securities | <u>\$ 264</u> | <u>\$ —</u> | <u>\$ (12)</u> | <u>\$ 252</u> |
| Available-for-sale | | | | |
| Securities of U.S. government and federal agencies | \$ 9,998 | \$ — | \$ (1,528) | \$ 8,470 |
| Securities of state and local municipalities tax exempt | 1,000 | — | (3) | 997 |
| Securities of state and local municipalities taxable | 453 | — | (49) | 404 |
| Corporate bonds | 20,204 | — | (2,556) | 17,648 |
| SBA pass-through securities | 62 | — | (5) | 57 |
| Mortgage-backed securities | 170,179 | — | (29,237) | 140,942 |
| Collateralized mortgage obligations | 3,809 | — | (732) | 3,077 |
| Total Available-for-sale Securities | <u>\$ 205,705</u> | <u>\$ —</u> | <u>\$ (34,110)</u> | <u>\$ 171,595</u> |

No allowance for credit losses was recognized as of September 30, 2024 and December 31, 2023 related to the Company's investment portfolio.

The Company had securities with a market value of \$ 6.3 million pledged for secured borrowings at September 30, 2024. No securities were pledged as of December 31, 2023 for secured borrowings. The Company had securities of \$45.2 million and \$7.2 million pledged to secure public deposits at September 30, 2024 and December 31, 2023, respectively.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

The Company monitors the credit quality of held-to-maturity securities through the use of credit ratings. The Company monitors credit ratings on a periodic basis. The following table summarizes the amortized cost of held-to-maturity securities at September 30, 2024 and December 31, 2023, aggregated by credit quality indicator:

| Held-to-Maturity: State maturity municipal and tax exempt | September 30, 2024 | December 31, 2023 |
|---|--------------------|-------------------|
| Aa3 | \$ 265 | \$ 264 |
| Total | \$ 265 | \$ 264 |

The following tables show the fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2024 and December 31, 2023, respectively. The reference point for determining when securities are in an unrealized loss position is month-end. Therefore, it is possible that a security's market value exceeded its amortized cost on other days during the past twelve-month period. Available-for-sale securities that have been in a continuous unrealized loss position as of September 30, 2024 are as follows:

| | Less Than 12 Months | | 12 Months or Longer | | Total | |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| At September 30, 2024 | | | | | | |
| Securities of U.S. government and federal agencies | \$ — | \$ — | \$ 8,844 | \$ (1,154) | \$ 8,844 | \$ (1,154) |
| Securities of state and local municipalities tax exempt | — | — | 998 | (2) | 998 | (2) |
| Securities of state and local municipalities taxable | — | — | 368 | (48) | 368 | (48) |
| Corporate bonds | 649 | (101) | 15,803 | (2,447) | 16,452 | (2,548) |
| SBA pass-through securities | — | — | 45 | (3) | 45 | (3) |
| Mortgage-backed securities | — | — | 135,439 | (25,078) | 135,439 | (25,078) |
| Collateralized mortgage obligations | — | — | 2,885 | (675) | 2,885 | (675) |
| Total | \$ 649 | \$ (101) | \$ 164,383 | \$ (29,407) | \$ 165,031 | \$ (29,508) |

Available-for-sale securities that have been in a continuous unrealized loss position as of December 31, 2023 are as follows:

| | Less Than 12 Months | | 12 Months or Longer | | Total | |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| At December 31, 2023 | | | | | | |
| Securities of U.S. government and federal agencies | \$ — | \$ — | \$ 8,470 | \$ (1,528) | \$ 8,470 | \$ (1,528) |
| Securities of state and local municipalities tax exempt | — | — | 997 | (3) | 997 | (3) |
| Securities of state and local municipalities taxable | — | — | 404 | (49) | 404 | (49) |
| Corporate bonds | — | — | 16,898 | (2,556) | 16,898 | (2,556) |
| SBA pass-through securities | — | — | 57 | (5) | 57 | (5) |
| Mortgage-backed securities | — | — | 140,942 | (29,237) | 140,942 | (29,237) |
| Collateralized mortgage obligations | — | — | 3,077 | (732) | 3,077 | (732) |
| Total | \$ — | \$ — | \$ 170,845 | \$ (34,110) | \$ 170,845 | \$ (34,110) |

Securities of U.S. government and federal agencies: The unrealized losses on two available-for-sale securities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments.

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Securities of state and local municipalities tax-exempt: The unrealized losses on two of the investments in securities of state and local municipalities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. These investments carry an S&P investment grade rating of AA+ and AA3.

Securities of state and local municipalities taxable: The unrealized loss on one of the investments in securities of state and local municipalities was caused by interest rate increases. The contractual terms of this investment does not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The investment carries an S&P investment grade rating of AAA.

Corporate bonds: The unrealized losses on 14 of the investments in corporate bonds were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. These investments do not carry a rating.

SBA pass-through securities: The unrealized losses on one available-for-sale security was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments.

Mortgage-backed securities: The unrealized losses on the Company's investment in 36 mortgage-backed securities were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments.

Collateralized mortgage obligations ("CMOs"): The unrealized loss associated with 11 CMOs was caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments.

The Company has evaluated its available-for-sale investments securities in an unrealized loss position for credit related impairment at September 30, 2024 and December 31, 2023 and concluded no impairment existed based on several factors which included: (1) the majority of these securities are of high credit quality, (2) unrealized losses are primarily the result of market volatility and increases in market interest rates, (3) issuers continue to make timely principal and interest payments, and (4) the Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis. Additionally, the Company's mortgage-backed investment securities are primarily guaranteed by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association and do not have credit risk given the implicit and explicit government guarantees associated with these agencies.

The amortized cost and fair value of securities at September 30, 2024, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

| | September 30, 2024 | | | |
|--------------------------------|--------------------|---------------|--------------------|-------------------|
| | Held-to-maturity | | Available-for-sale | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| 3 months or less | \$ — | \$ — | \$ 1,000 | \$ 998 |
| After 1 year through 5 years | 265 | 260 | 3,083 | 2,895 |
| After 5 years through 10 years | — | — | 26,818 | 23,281 |
| After 10 years | — | — | 163,639 | 137,857 |
| Total | <u>\$ 265</u> | <u>\$ 260</u> | <u>\$ 194,540</u> | <u>\$ 165,031</u> |

For the nine months ended September 30, 2024 and 2023, principal repayments of securities totaled \$ 11.1 million and \$16.6 million, respectively. For the nine months ended September 30, 2024 and 2023, proceeds from sales, calls and maturities of securities were \$1.2 million and \$35.8 million, respectively. There were no securities sold during the nine

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months ended September 30, 2024 compared to \$35.8 million during the nine months ended September 30, 2023. There were no realized gains or losses during the nine months ended September 30, 2024 and realized gross losses totaled \$4.6 million during the nine months ended September 30, 2023.

Note 3. Loans and Allowance for Credit Losses

A summary of loan balances at amortized cost by type follows:

| | September 30, 2024 | December 31, 2023 |
|-----------------------------|--------------------|-------------------|
| Commercial real estate | \$ 1,062,978 | \$ 1,091,633 |
| Commercial and industrial | 299,598 | 219,873 |
| Commercial construction | 173,806 | 147,998 |
| Consumer real estate | 331,713 | 363,317 |
| Consumer nonresidential | 6,851 | 5,743 |
| | \$ 1,874,946 | \$ 1,828,564 |
| Less: | | |
| Allowance for credit losses | 19,067 | 18,871 |
| Loans, net | \$ 1,855,879 | \$ 1,809,693 |

An analysis of the allowance for credit losses for the three and nine months ended September 30, 2024 and 2023, and for the year ended December 31, 2023 follows:

Allowance for Credit Losses
For the Three Months Ended September 30, 2024

| | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Consumer Real Estate | Consumer Nonresidential | Total |
|-------------------------------------|---------------------------|------------------------------|----------------------------|----------------------------|----------------------------|-----------|
| September 30, 2024 | | | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning Balance, July 1 | \$ 9,986 | \$ 3,598 | \$ 1,590 | \$ 3,962 | \$ 72 | \$ 19,208 |
| Charge-offs | — | — | — | — | (14) | (14) |
| Recoveries | — | — | — | — | 77 | 77 |
| Provision (reversal) | (217) | 58 | 94 | (72) | (67) | (204) |
| Ending Balance September 30, | \$ 9,769 | \$ 3,656 | \$ 1,684 | \$ 3,890 | \$ 68 | \$ 19,067 |

Allowance for Credit Losses
For the Nine Months Ended September 30, 2024

| | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Consumer Real Estate | Consumer Nonresidential | Total |
|-------------------------------------|---------------------------|------------------------------|----------------------------|----------------------------|----------------------------|-----------|
| September 30, 2024 | | | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning Balance, January 1 | \$ 10,174 | \$ 3,385 | \$ 1,425 | \$ 3,822 | \$ 65 | \$ 18,871 |
| Charge-offs | — | — | — | — | (25) | (25) |
| Recoveries | — | — | — | — | 123 | 123 |
| Provision (reversal) | (405) | 271 | 259 | 68 | (95) | 98 |
| Ending Balance, September 30, | \$ 9,769 | \$ 3,656 | \$ 1,684 | \$ 3,890 | \$ 68 | \$ 19,067 |

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Allowance for Credit Losses
For the Three Months Ended September 30, 2023

| | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Consumer Real Estate | Consumer Nonresidential | Total |
|-------------------------------------|---------------------------|------------------------------|----------------------------|----------------------------|----------------------------|------------------|
| September 30, 2023 | | | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning Balance, July 1 | \$ 11,122 | \$ 2,865 | \$ 1,702 | \$ 3,683 | \$ 70 | \$ 19,442 |
| Charge-offs | — | — | — | — | — | — |
| Recoveries | — | — | — | — | 7 | 7 |
| Provision (reversal) | (483) | (184) | (53) | 124 | (4) | (600) |
| Ending Balance, September 30, | <u>\$ 10,639</u> | <u>\$ 2,681</u> | <u>\$ 1,649</u> | <u>\$ 3,807</u> | <u>\$ 73</u> | <u>\$ 18,849</u> |

Allowance for Credit Losses
For the Nine Months Ended September 30, 2023

| | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Consumer Real Estate | Consumer Nonresidential | Total |
|---|---------------------------|------------------------------|----------------------------|----------------------------|----------------------------|------------------|
| September 30, 2023 | | | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning Balance, Prior to January 1, 2023 Adoption of ASC 326 | \$ 10,777 | \$ 2,623 | \$ 1,499 | \$ 1,044 | \$ 97 | \$ 16,040 |
| Impact of Adoption of ASC 326 | 498 | 452 | 70 | 1,856 | (12) | 2,864 |
| Charge-offs | — | (350) | — | — | (15) | (365) |
| Recoveries | — | 3 | — | 1 | 35 | 39 |
| Provision (reversal) | (636) | (47) | 80 | 906 | (32) | 271 |
| Ending Balance, September 30, | <u>\$ 10,639</u> | <u>\$ 2,681</u> | <u>\$ 1,649</u> | <u>\$ 3,807</u> | <u>\$ 73</u> | <u>\$ 18,849</u> |

Allowance for Credit Losses
For the Year Ended December 31, 2023

| | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Consumer Real Estate | Consumer Nonresidential | Total |
|---|---------------------------|------------------------------|----------------------------|----------------------------|----------------------------|------------------|
| December 31, 2023 | | | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning Balance, Prior to January 1, 2023 Adoption of ASC 326 | \$ 10,777 | \$ 2,623 | \$ 1,499 | \$ 1,044 | \$ 97 | \$ 16,040 |
| Impact of Adoption of ASC 326 | 498 | 452 | 70 | 1,856 | (12) | 2,864 |
| Charge-offs | (53) | (350) | — | — | (15) | (418) |
| Recoveries | — | 3 | — | 1 | 39 | 43 |
| Provision (reversal) | (1,048) | 657 | (144) | 921 | (44) | 342 |
| Ending Balance, December 31, | <u>\$ 10,174</u> | <u>\$ 3,385</u> | <u>\$ 1,425</u> | <u>\$ 3,822</u> | <u>\$ 65</u> | <u>\$ 18,871</u> |

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The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of September 30, 2024 and December 31, 2023:

| | September 30, 2024 | | December 31, 2023 | |
|-----------------------------------|--------------------|-------------------------|-------------------|-------------------------|
| | Real Estate | Business / Other Assets | Real Estate | Business / Other Assets |
| Collateral-Dependent Loans | | | | |
| Commercial real estate | \$ 851 | \$ — | \$ 20,765 | \$ — |
| Commercial and industrial | — | 1,073 | — | 1,070 |
| Commercial construction | — | — | — | — |
| Consumer real estate | 1,243 | — | 654 | — |
| Consumer nonresidential | — | — | — | — |
| Total | \$ 2,094 | \$ 1,073 | \$ 21,419 | \$ 1,070 |

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

Pass — Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions below and smaller, homogeneous loans not assessed on an individual basis.

Special Mention — Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard — Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the enhanced possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful — Loans classified as doubtful include those loans which have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently known facts, conditions and values, improbable.

Loss — Loans classified as loss include those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be achieved in the future, it is neither practical nor desirable to defer writing off these loans.

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Based on the most recent analysis performed, amortized cost basis of loans by risk category, class and year of origination was as follows as of September 30, 2024:

| | Prior | 2020 | 2021 | 2022 | 2023 | 2024 | Revolving Loans Amort. Cost Basis | Revolving Loans Convert. to Term | Total |
|----------------------------------|------------|-----------|------------|------------|------------|------------|---|---|--------------|
| Commercial Real Estate | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 392,175 | \$ 68,944 | \$ 133,700 | \$ 206,576 | \$ 72,623 | \$ 17,630 | \$ 155,415 | \$ — | \$ 1,047,063 |
| Special mention | 12,574 | — | 1,755 | — | — | — | — | — | 14,329 |
| Substandard | 737 | 849 | — | — | — | — | — | — | 1,586 |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — | — |
| Total | \$ 405,486 | \$ 69,793 | \$ 135,455 | \$ 206,576 | \$ 72,623 | \$ 17,630 | \$ 155,415 | \$ — | \$ 1,062,978 |
| Commercial and Industrial | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 18,045 | \$ 2,815 | \$ 8,825 | \$ 30,301 | \$ 37,667 | \$ 97,763 | \$ 102,107 | \$ — | \$ 297,523 |
| Special mention | — | — | — | — | — | — | 1,002 | — | 1,002 |
| Substandard | — | — | — | 887 | — | — | 186 | — | 1,073 |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — | — |
| Total | \$ 18,045 | \$ 2,815 | \$ 8,825 | \$ 31,188 | \$ 37,667 | \$ 97,763 | \$ 103,295 | \$ — | \$ 299,598 |
| Commercial Construction | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 8,337 | \$ — | \$ 6,125 | \$ — | \$ — | \$ — | \$ 159,344 | \$ — | \$ 173,806 |
| Special mention | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — | — |
| Total | \$ 8,337 | \$ — | \$ 6,125 | \$ — | \$ — | \$ — | \$ 159,344 | \$ — | \$ 173,806 |
| Consumer Real Estate | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 39,217 | \$ 4,627 | \$ 27,238 | \$ 179,133 | \$ 50,058 | \$ 945 | \$ 29,935 | \$ — | \$ 331,153 |
| Special mention | — | — | — | — | — | — | 54 | — | 54 |
| Substandard | 107 | — | — | — | — | — | 399 | — | 506 |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — | — |
| Total | \$ 39,324 | \$ 4,627 | \$ 27,238 | \$ 179,133 | \$ 50,058 | \$ 945 | \$ 30,388 | \$ — | \$ 331,713 |
| Consumer Nonresidential | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 591 | \$ 3 | \$ 1 | \$ 27 | \$ 107 | \$ 85 | \$ 6,062 | \$ — | \$ 6,876 |
| Special mention | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | (22) | — | — | — | (3) | — | — | — | (25) |
| Total | \$ 569 | \$ 3 | \$ 1 | \$ 27 | \$ 104 | \$ 85 | \$ 6,062 | \$ — | \$ 6,851 |
| Total Recorded Investment | \$ 471,761 | \$ 77,238 | \$ 177,644 | \$ 416,924 | \$ 160,452 | \$ 116,423 | \$ 454,504 | \$ — | \$ 1,874,946 |

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Based on the most recent analysis performed, amortized cost basis of loans by risk category, class and year of origination was as follows as of December 31, 2023:

| | Prior | 2019 | 2020 | 2021 | 2022 | 2023 | Revolving Loans Amort. Cost Basis | Revolving Loans Convert. to Term | Total |
|----------------------------------|------------|-----------|-----------|------------|------------|------------|---|---|--------------|
| Commercial Real Estate | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 341,818 | \$ 82,924 | \$ 70,564 | \$ 147,252 | \$ 211,786 | \$ 57,422 | \$ 153,838 | \$ — | \$ 1,065,551 |
| Special mention | 1,268 | 1,361 | — | 2,688 | — | — | — | — | 5,317 |
| Substandard | — | — | 849 | — | — | 19,916 | — | — | 20,765 |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | (53) | — | — | — | — | — | — | — | — |
| Total | \$ 343,033 | \$ 84,285 | \$ 71,413 | \$ 149,940 | \$ 211,786 | \$ 77,338 | \$ 153,838 | \$ — | \$ 1,091,633 |
| Commercial and Industrial | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 10,347 | \$ 2,285 | \$ 6,296 | \$ 13,623 | \$ 54,784 | \$ 42,034 | \$ 88,926 | \$ — | \$ 218,295 |
| Special mention | — | — | — | 76 | — | — | 782 | — | 858 |
| Substandard | — | — | — | — | 884 | — | 186 | — | 1,070 |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | (350) | — | — | — | — | — | — | — | (350) |
| Total | \$ 9,997 | \$ 2,285 | \$ 6,296 | \$ 13,699 | \$ 55,668 | \$ 42,034 | \$ 89,894 | \$ — | \$ 219,873 |
| Commercial Construction | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 11,149 | \$ — | \$ — | \$ 6,204 | \$ — | \$ 709 | \$ 129,936 | \$ — | \$ 147,998 |
| Special mention | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — | — |
| Total | \$ 11,149 | \$ — | \$ — | \$ 6,204 | \$ — | \$ 709 | \$ 129,936 | \$ — | \$ 147,998 |
| Consumer Real Estate | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 35,240 | \$ 8,196 | \$ 8,914 | \$ 28,848 | \$ 196,678 | \$ 51,767 | \$ 32,963 | \$ — | \$ 362,659 |
| Special mention | — | — | — | — | — | — | 57 | — | 57 |
| Substandard | 108 | — | — | — | — | — | 546 | — | 654 |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — | (53) |
| Total | \$ 35,348 | \$ 8,196 | \$ 8,914 | \$ 28,848 | \$ 196,678 | \$ 51,767 | \$ 33,566 | \$ — | \$ 363,317 |
| Consumer Nonresidential | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | \$ 674 | \$ — | \$ 7 | \$ 3 | \$ 36 | \$ 177 | \$ 4,861 | \$ — | \$ 5,758 |
| Special mention | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — | — | — |
| Loss | (15) | — | — | — | — | — | — | — | (15) |
| Total | \$ 659 | \$ — | \$ 7 | \$ 3 | \$ 36 | \$ 177 | \$ 4,861 | \$ — | \$ 5,743 |
| Total Recorded Investment | \$ 400,186 | \$ 94,766 | \$ 86,630 | \$ 198,694 | \$ 464,168 | \$ 172,025 | \$ 412,095 | \$ — | \$ 1,828,564 |

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(\$ in thousands, except per share data)

Total Loan Portfolio - As of September 30, 2024 and December 31, 2023

| | September 30, 2024 | December 31, 2023 |
|---------------------------|---------------------|---------------------|
| Grade: | | |
| Pass | \$ 1,856,421 | \$ 1,800,261 |
| Special mention | 15,385 | 6,232 |
| Substandard | 3,165 | 22,489 |
| Doubtful | — | — |
| Loss | (25) | (418) |
| Total Recorded Investment | <u>\$ 1,874,946</u> | <u>\$ 1,828,564</u> |

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes larger non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. At September 30, 2024, the Company had \$15.4 million in loans identified as special mention, an increase from \$ 6.2 million at December 31, 2023. Special mention rated loans are loans that have a potential weakness that deserves management's close attention, however, the borrower continues to pay in accordance with their contract. Loans rated as special mention do not have a specific reserve and are considered well-secured.

At September 30, 2024, the Company had \$3.2 million in loans identified as substandard, a decrease of \$ 19.3 million from December 31, 2023. Substandard rated loans are loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans are individually evaluated, typically on the basis of the underlying collateral. At September 30, 2024, an individually assessed allowance for credit losses totaling \$801 thousand has been estimated to supplement any shortfall of collateral.

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Past due and nonaccrual loans presented by loan class were as follows at September 30, 2024 and December 31, 2023:

| | 30-59 days past due | 60-89 days past due | 90 days or more past due | Total past due loans | Current | Nonaccruals | Total Recorded Investment in Loans |
|---------------------------------|------------------------|------------------------|-----------------------------|-------------------------|--------------|-------------|--|
| As of September 30, 2024 | | | | | | | |
| Commercial real estate | \$ — | \$ 214 | \$ 911 | \$ 1,125 | \$ 1,061,002 | \$ 851 | \$ 1,062,978 |
| Commercial and industrial | 49 | 433 | — | 482 | 298,043 | 1,073 | 299,598 |
| Commercial construction | — | — | — | — | 173,806 | — | 173,806 |
| Consumer real estate | 726 | 770 | 215 | 1,711 | 329,496 | 506 | 331,713 |
| Consumer nonresidential | — | 2 | — | 2 | 6,849 | — | 6,851 |
| Total | \$ 775 | \$ 1,419 | \$ 1,126 | \$ 3,320 | \$ 1,869,197 | \$ 2,430 | \$ 1,874,946 |
| As of December 31, 2023 | | | | | | | |
| Commercial real estate | \$ 1,115 | \$ — | \$ — | \$ 1,115 | \$ 1,089,669 | \$ 849 | \$ 1,091,633 |
| Commercial and industrial | 51 | 1,387 | — | 1,438 | 218,249 | 186 | 219,873 |
| Commercial construction | 2,569 | 391 | — | 2,960 | 145,038 | — | 147,998 |
| Consumer real estate | 1,300 | — | 134 | 1,434 | 361,229 | 654 | 363,317 |
| Consumer nonresidential | — | — | 6 | 6 | 5,737 | — | 5,743 |
| Total | \$ 5,035 | \$ 1,778 | \$ 140 | \$ 6,953 | \$ 1,819,922 | \$ 1,689 | \$ 1,828,564 |

The following presents nonaccrual loans as of September 30, 2024 and December 31, 2023:

| | Nonaccrual with No Allowance for Credit Losses | Nonaccrual with an Allowance for Credit Losses | Total Nonaccrual Loans | Interest Income Recognized |
|---------------------------------|--|--|------------------------|-------------------------------|
| As of September 30, 2024 | | | | |
| Nonaccrual Loans | | | | |
| Commercial real estate | \$ — | \$ 851 | \$ 851 | \$ 34 |
| Commercial and industrial | 1,073 | — | 1,073 | 42 |
| Commercial construction | — | — | — | — |
| Consumer real estate | — | 506 | 506 | — |
| Consumer nonresidential | — | — | — | — |
| Total | \$ 1,073 | \$ 1,357 | \$ 2,430 | \$ 76 |
| As of December 31, 2023 | | | | |
| Nonaccrual Loans | | | | |
| Commercial real estate | \$ 849 | \$ — | \$ 849 | \$ 37 |
| Commercial and industrial | — | 186 | 186 | 19 |
| Commercial construction | — | — | — | — |
| Consumer real estate | 654 | — | 654 | 53 |
| Consumer nonresidential | — | — | — | — |
| Total | \$ 1,503 | \$ 186 | \$ 1,689 | \$ 109 |

There were two consumer mortgage loans totaling \$107 thousand secured by residential real estate properties for which formal foreclosure proceedings were in process as of September 30, 2024. There were no consumer mortgage loans in process of foreclosure at December 31, 2023.

There were \$271 thousand of overdrafts and \$147 thousand of overdrafts at September 30, 2024 and December 31, 2023, respectively, which have been reclassified from deposits to loans. At September 30, 2024 and

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

December 31, 2023, loans with a carrying value of \$ 489.7 million and \$530.2 million were pledged to the Federal Home Loan Bank of Atlanta ("FHLB").

Modifications with Borrowers Experiencing Financial Difficulty

Loan modifications when a borrower is experiencing financial difficulty ("FDMs") occur as a result of loss mitigation activities. A variety of solutions are offered to borrowers, including loan modifications that may result in principal forgiveness, interest rate reductions, term extensions, payment delays, repayment plans or combinations thereof. FDMs exclude loans held for sale and loans accounted for under the fair value option. Loans with guarantor support, or guaranteed loans are included in the Company's disclosed population of FDMs when those loan modifications are granted to a borrower experiencing financial difficulty.

There were no loans designated as modifications for borrowers who were experiencing financial difficulty during the three and nine months ended September 30, 2024, and 2023, respectively.

As of September 30, 2024, the reserve for unfunded commitments decreased to \$ 510 thousand from \$602 thousand at December 31, 2023.

The following table presents a breakdown of the provision for credit losses included in the Consolidated Statements of Income for the applicable periods:

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|--------------------|---------------------------|--------------------|
| | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 30, 2023 |
| Provision for credit losses - loans | \$ (204) | \$ (600) | \$ 98 | \$ 271 |
| Provision for (reversal of) credit losses - unfunded commitments | 4 | (129) | (92) | (139) |
| Total provision for credit losses | \$ (200) | \$ (729) | \$ 6 | \$ 132 |

Note 4. Derivative Financial Instruments

The Company enters into interest rate swap agreements ("swap agreements") to facilitate the risk management strategies needed in order to accommodate the needs of its banking customers. The Company mitigates the risk of entering into these loan agreements by entering into equal and offsetting swap agreements with highly-rated third party financial institutions. These back-to-back swap agreements are free-standing derivatives and are recorded at fair value in the Company's consolidated statements of condition (asset positions are included in other assets and liability positions are included in other liabilities) as of September 30, 2024 and December 31, 2023. The Company is party to master netting arrangements with its financial institution counterparty; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes. The master netting arrangements provide for a single net settlement of all swap agreements, as well as collateral, in the event of default on, or termination of, any one contract. Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in value of the derivative. These payments, commonly referred to as variation margin, are recorded as settlements of the derivatives' mark-to-market exposure rather than collateral against the exposures, which effectively results in any centrally cleared derivative having a Level 2 fair value that approximates zero on a daily basis, and therefore, these swap agreements were not included in the offsetting table in the Fair Value Measurement section below. As of September 30, 2024 and December 31, 2023, the Company had entered into 17 interest rate swap agreements which were collateralized by \$ 30 thousand in cash.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

The notional amount and fair value of the Company's derivative financial instruments as of September 30, 2024 and December 31, 2023 were as follows:

| | September 30, 2024 | |
|----------------------------------|--------------------|------------|
| | Notional Amount | Fair Value |
| Interest Rate Swap Agreements | | |
| Receive Fixed/Pay Variable Swaps | \$ 81,017 | \$ 1,744 |
| Pay Fixed/Receive Variable Swaps | 81,017 | (1,744) |

| | December 31, 2023 | |
|----------------------------------|-------------------|------------|
| | Notional Amount | Fair Value |
| Interest Rate Swap Agreements | | |
| Receive Fixed/Pay Variable Swaps | \$ 82,483 | \$ 2,853 |
| Pay Fixed/Receive Variable Swaps | 82,483 | (2,853) |

Interest Rate Risk Management—Cash Flow Hedging Instruments

The Company uses wholesale funding (in the form of FHLB advances and brokered certificates of deposit) from time to time as a source of funds for use in the Company's lending and investment activities and other general business purposes. This wholesale funding exposes the Company to increased interest rate risk as a result of the variability in cash flows (future interest payments). The Company believes it is prudent to reduce this interest rate risk. To meet this objective, the Company entered into interest rate swap agreements whereby the Company reduces the interest rate risk associated with the Company's variable rate wholesale funding from the designation date and going through the maturity date.

At September 30, 2024 and December 31, 2023, the information pertaining to outstanding interest rate swap agreements used to hedge variability in cash flows is as follows:

| | September 30, 2024 | December 31, 2023 |
|---|--------------------|-------------------|
| Notional amount | \$ 250,000 | \$ 250,000 |
| Weighted average pay rate | 3.25 % | 3.25 % |
| Weighted average receive rate | 5.15 % | 5.34 % |
| Weighted average maturity in years | 3.28 years | 4.03 years |
| Unrealized gain relating to interest rate swaps | \$ 157 | \$ 2,915 |

These agreements provided for the Company to receive payments determined by a specific index in exchange for making payments at a fixed rate. At September 30, 2024 and December 31, 2023, the unrealized gain or loss relating to interest rate swaps designated as hedging instruments of the variability of cash flows associated with wholesale funding are reported in other comprehensive income (loss). These amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on wholesale funding affects earnings. The Company measures cash flow hedging relationships for effectiveness on a monthly basis, and at September 30, 2024 and December 31, 2023, the hedges were highly effective and the amount of ineffectiveness reflected in earnings was de minimus.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

Note 5. Financial Instruments with Off-Balance Sheet Risk

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

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At September 30, 2024 and December 31, 2023, the following financial instruments were outstanding which contract amounts represent credit risk:

| | September 30, 2024 | December 31, 2023 |
|--|--------------------|-------------------|
| Commitments to grant loans | \$ 57,367 | \$ 36,650 |
| Unused commitments to fund loans and lines of credit | 169,138 | 215,892 |
| Commercial and standby letters of credit | 23,942 | 26,024 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Substantially all letters of credit issued have expiration dates within 1 year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.

The Company enters into rate lock commitments to finance residential mortgage loans with its customers. These commitments offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the timeframe established by the Company.

The Company maintains its cash accounts with the Federal Reserve Board of Richmond ("FRB") and correspondent banks. The total amount of cash on deposit in correspondent banks exceeding the federally insured limits was \$3.7 million and \$41 thousand at September 30, 2024 and December 31, 2023, respectively.

Note 6. Stock-Based Compensation Plan

The Company's Amended and Restated 2008 Option Plan (the "Plan"), which is stockholder-approved, was adopted to advance the interests of the Company by providing selected key employees of the Company, their affiliates, and directors with the opportunity to acquire shares of common stock in connection with their service to the Company. In May 2022, the stockholders approved an amendment to the Plan to extend the term and increase the number of shares authorized for issuance under the Plan by 200,000 shares. The Company has granted stock options and restricted stock units under the Plan.

The maximum number of shares with respect to which awards may be made is 2,929,296 shares of common stock, subject to adjustment for certain corporate events. Option awards are granted with an exercise price equal to the market

Notes to Consolidated Financial Statements
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price of the Company's stock at the date of grant, generally vest annually over four years of continuous service and have contractual terms of ten years. At September 30, 2024, 146,342 shares were available to grant under the Plan.

No options were granted during the three and nine months ended September 30, 2024 and 2023. For the three and nine months ended September 30, 2024, there were 0 and 94,270 shares withheld from issuance upon exercise of options in order to cover the cost of the exercise by the participant. There were 63,634 shares withheld from issuance upon exercise of options in order to cover the cost of the exercise by the participant during the three and nine months ended September 30, 2023.

A summary of option activity under the Plan as of September 30, 2024, and changes during the nine months ended is presented below:

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (1) |
|---|-----------|--|---|-------------------------------------|
| Outstanding at January 1, 2024 | 1,174,131 | \$ 7.14 | 1.30 | |
| Granted | — | — | | |
| Exercised | (452,441) | 5.86 | | |
| Forfeited or expired | — | — | | |
| Outstanding and Exercisable at September 30, 2024 | 721,690 | \$ 7.94 | 1.91 | \$ 3,686,040 |

⁽¹⁾ The aggregate intrinsic value of stock options represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on September 30, 2024. This amount changes based on changes in the market value of the Company's stock.

As of September 30, 2024, all outstanding options of the Plan were fully vested. Tax benefits recognized for qualified and non-qualified stock option exercises for the three months ended September 30, 2024 and for the three months ended September 30, 2023 totaled \$8 thousand and \$0, respectively. Tax benefits recognized in the income statement for share-based compensation arrangements during the nine months ended September 30, 2024 and 2023 totaled \$265 thousand and \$479 thousand, respectively.

There were no restricted stock units granted during the nine months ended September 30, 2024. There were 9,438 restricted stock units granted during the nine months ended September 30, 2023. For the nine months ended September 30, 2024, there were 12,199 shares withheld from issuance upon vesting of restricted stock units in order to cover the taxes upon vesting by the participant. There were 10,071 shares withheld from issuance upon vesting of restricted stock units in order to cover the taxes upon vesting by the participant during the nine months ended September 30, 2023.

A summary of the Company's restricted stock unit activity for the nine months ended September 30, 2024 is shown below.

| | Number of Shares | Weighted Average Grant Date Fair Value |
|-------------------------------|---------------------|--|
| Nonvested at January 1, 2024 | 179,115 | \$ 14.30 |
| Granted | — | — |
| Vested | (61,854) | 14.34 |
| Forfeited | (18,667) | 13.78 |
| Balance at September 30, 2024 | 98,594 | \$ 14.37 |

The compensation cost that has been charged to income for the Plan totaled \$ 243 thousand and \$259 thousand for the three months ended September 30, 2024 and 2023, respectively. The compensation costs totaled \$612 thousand and \$909 thousand for the nine months ended September 30, 2024 and 2023, respectively. As of September 30, 2024, there

Notes to Consolidated Financial Statements
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was \$1.6 million of total unrecognized compensation cost related to nonvested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 20 months.

Note 7. Fair Value Measurements

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with fair value measurements and disclosures topic of FASB Accounting Standards Codification ("ASC") 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date (exit price). 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. 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.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured 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.

Level 1 — Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 — Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model -based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 — Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available-for-sale: Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2).

Derivative: The Company has loan interest rate swap derivatives and interest rate swap derivatives on certain time deposits and borrowings, which the latter are designated as cash flow hedges. These derivatives are recorded at fair value

Notes to Consolidated Financial Statements
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using published yield curve rates from a national valuation service. These observable rates and inputs are applied to a third party industry-wide valuation model, and therefore, the valuations fall into a Level 2 category.

The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023:

| | | Fair Value Measurements at September 30, 2024 Using | | |
|---|-------------------------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Description | Balance as of September 30, 2024 | | | |
| Assets | | | | |
| Available-for-sale | | | | |
| Securities of U.S. government and federal agencies | \$ 8,844 | \$ — | \$ 8,844 | \$ — |
| Securities of state and local municipalities tax exempt | 998 | — | 998 | — |
| Securities of state and local municipalities taxable | 368 | — | 368 | — |
| Corporate bonds | 16,452 | — | 16,452 | — |
| SBA pass-through securities | 45 | — | 45 | — |
| Mortgage-backed securities | 135,439 | — | 135,439 | — |
| Collateralized mortgage obligations | 2,885 | — | 2,885 | — |
| Total Available-for-Sale Securities | \$ 165,031 | \$ — | \$ 165,031 | \$ — |
| Derivative assets - interest rate swaps | \$ 1,744 | \$ — | \$ 1,744 | \$ — |
| Derivative assets - cash flow hedge | 157 | — | 157 | — |
| Liabilities | | | | |
| Derivative liabilities - interest rate swaps | \$ 1,744 | \$ — | \$ 1,744 | \$ — |

Notes to Consolidated Financial Statements
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| | | Fair Value Measurements at December 31, 2023 Using | | |
|---|------------------------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | | |
| | | | | |
| Description | Balance as of December 31, 2023 | | | |
| Assets | | | | |
| Available-for-sale | | | | |
| Securities of U.S. government and federal agencies | \$ 8,470 | \$ — | \$ 8,470 | \$ — |
| Securities of state and local municipalities tax exempt | 997 | — | 997 | — |
| Securities of state and local municipalities taxable | 404 | — | 404 | — |
| Corporate bonds | 17,648 | — | 17,648 | — |
| SBA pass-through securities | 57 | — | 57 | — |
| Mortgage-backed securities | 140,942 | — | 140,942 | — |
| Collateralized mortgage obligations | 3,077 | — | 3,077 | — |
| Total Available-for-Sale Securities | \$ 171,595 | \$ — | \$ 171,595 | \$ — |
| Derivative assets - interest rate swaps | \$ 2,853 | \$ — | \$ 2,853 | \$ — |
| Derivative assets - cash flow hedge | 2,915 | — | 2,915 | — |
| Liabilities | | | | |
| Derivative liabilities - interest rate swaps | \$ 2,853 | \$ — | \$ 2,853 | \$ — |

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower of cost or market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

At September 30, 2024 and December 31, 2023 all of the Company's individually evaluated loans were evaluated based upon the fair value of the collateral. In accordance with ASC 820, individually evaluated loans where an allowance is established based on the the fair value of collateral (i.e., those loans that are collateral dependent) require classification in the fair value hierarchy. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction, has the value derived by discounting comparable sales due to lack of similar properties, or is discounted by the Company due to marketability, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

The following tables summarize the Company's assets that were measured at fair value on a nonrecurring basis at September 30, 2024 and December 31, 2023:

| Description | | Fair Value Measurements | | |
|----------------------------------|--------------------|-------------------------|-------------|--------------|
| | | Using | | |
| | | Quoted Prices | Significant | |
| | | in Active | Other | Significant |
| | Balance as of | Markets for | Observable | Unobservable |
| | September 30, 2024 | Identical | Inputs | Inputs |
| | | Assets | | |
| | | (Level 1) | (Level 2) | (Level 3) |
| Assets | | | | |
| Collateral-dependent loans | | | | |
| Commercial real estate | \$ 617 | \$ — | \$ — | \$ 617 |
| Commercial and industrial | 392 | \$ — | \$ — | 392 |
| Total Collateral-dependent loans | \$ 1,009 | \$ — | \$ — | \$ 1,009 |

| Description | | Fair Value Measurements | | |
|------------------------------------|-----------|--|--|---------------------------------------|
| | | Using | | |
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| | | | | |
| | | | | |
| Balance as of December 31, 2023 | (Level 1) | (Level 2) | (Level 3) | |
| Assets | | | | |
| Collateral-dependent loans | | | | |
| Commercial real estate | \$ 849 | \$ — | \$ — | \$ 849 |
| Commercial and industrial | 396 | — | — | 396 |
| Total Collateral-dependent loans | \$ 1,245 | \$ — | \$ — | \$ 1,245 |

The following tables display quantitative information about Level 3 Fair Value Measurements for September 30, 2024 and December 31, 2023:

| Quantitative information about Level 3 Fair Value Measurements at September 30, 2024 | | | | | |
|--|------------|----------------------------|-----------------------------|-----------|---------|
| Assets | Fair Value | Valuation Technique(s) | Unobservable input | Range | (Avg.) |
| Collateral-dependent loans | | | | | |
| Commercial real estate | \$ 617 | Discounted appraised value | Marketability/Selling costs | 10% - 10% | 10.00 % |
| Commercial and industrial | \$ 392 | Discounted appraised value | Marketability/Selling costs | 10% - 10% | 10.00 % |

| Quantitative information about Level 3 Fair Value Measurements at December 31, 2023 | | | | | |
|---|------------|----------------------------|-----------------------------|-----------|---------|
| Assets | Fair Value | Valuation Technique(s) | Unobservable input | Range | (Avg.) |
| Collateral-dependent loans | | | | | |
| Commercial real estate | \$ 849 | Discounted appraised value | Marketability/Selling costs | 10% - 10% | 10.00 % |
| Commercial and industrial | \$ 396 | Discounted appraised value | Marketability/Selling costs | 10% - 10% | 10.00 % |

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

The following presents the carrying amount, fair value and placement in the fair value hierarchy of the Company's financial instruments as of September 30, 2024 and December 31, 2023. Fair values as of September 30, 2024 and December 31, 2023 are estimated under the exit price notion.

| | | Fair Value Measurements as of September 30, 2024 using | | | |
|---|------------|---|------------|---|---------------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets | | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Carrying Amount | | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | |
| Cash and due from banks | \$ 10,051 | \$ 10,051 | \$ — | \$ — | |
| Interest-bearing deposits at other institutions | 167,575 | 167,575 | — | — | |
| Securities held-to-maturity | 265 | — | 260 | — | |
| Securities available-for-sale | 165,031 | — | 165,031 | — | |
| Restricted stock | 8,186 | — | 8,186 | — | |
| Loans, net | 1,855,879 | — | — | 1,775,807 | |
| Bank owned life insurance | 9,148 | — | 9,148 | — | |
| Accrued interest receivable | 10,688 | — | 10,688 | — | |
| Derivative assets - interest rate swaps | 1,744 | — | 1,744 | — | |
| Derivative assets - cash flow hedge | 157 | — | 157 | — | |
| Financial liabilities: | | | | | |
| Checking | \$ 972,867 | \$ — | \$ 972,867 | \$ — | |
| Savings and money market | 491,496 | — | 491,496 | — | |
| Time deposits | 246,527 | — | 247,706 | — | |
| Wholesale deposits | 249,877 | — | 250,071 | — | |
| FHLB advances | 57,000 | — | 57,000 | — | |
| Subordinated notes | 19,666 | — | 19,710 | — | |
| Accrued interest payable | 3,313 | — | 3,313 | — | |
| Derivative liabilities - interest rate swaps | 1,744 | — | 1,744 | — | |

Notes to Consolidated Financial Statements
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| | Carrying Amount | Fair Value Measurements as of December 31, 2023 using | | |
|---|--------------------|---|-------------------|--------------|
| | | Quoted Prices in | Significant Other | Significant |
| | | Active Markets | Observable | Unobservable |
| | | for Identical | Inputs | Inputs |
| | | Assets | Level 2 | Level 3 |
| | | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Cash and due from banks | \$ 8,042 | \$ 8,042 | \$ — | \$ — |
| Interest-bearing deposits at other institutions | 52,480 | 52,480 | — | — |
| Securities held-to-maturity | 264 | — | 252 | — |
| Securities available-for-sale | 171,595 | — | 171,595 | — |
| Restricted stock | 9,488 | — | 9,488 | — |
| Loans, net | 1,809,693 | — | — | 1,725,785 |
| Bank owned life insurance | 56,823 | — | 56,823 | — |
| Accrued interest receivable | 10,321 | — | 10,321 | — |
| Derivative assets - interest rate swaps | 2,853 | — | 2,853 | — |
| Derivative assets - cash flow hedge | 2,915 | — | 2,915 | — |
| Financial liabilities: | | | | |
| Checking | \$ 973,195 | \$ — | \$ 973,195 | \$ — |
| Savings and money market | 320,498 | — | 320,498 | — |
| Time deposits | 306,349 | — | 306,733 | — |
| Wholesale deposits | 245,250 | — | 245,216 | — |
| FHLB advances | 85,000 | — | 85,000 | — |
| Subordinated notes | 19,620 | — | 18,565 | — |
| Accrued interest payable | 2,415 | — | 2,415 | — |
| Derivative liabilities - interest rate swaps | 2,853 | — | 2,853 | — |

Note 8. Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of stock which then shared in the earnings of the Company. Weighted average shares – diluted includes only the potential dilution of stock options and unvested restricted stock units as of September 30, 2024 and 2023, respectively.

The following shows the weighted average number of shares used in computing earnings per share and the effect of weighted average number of shares of dilutive potential common stock. Dilutive potential common stock has no effect on income available to common shareholders. There were no anti-dilutive shares for the three and nine months ended September 30, 2024 and there were 9,327 anti-dilutive shares for the three and nine months ended September 30, 2023.

Notes to Consolidated Financial Statements
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The holders of restricted stock do not share in dividends and do not have voting rights during the vesting period.

(average shares are in thousands)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2024 | 2023 | 2024 | 2023 |
| Net income | \$ 4,669 | \$ 4,039 | \$ 10,164 | \$ 8,892 |
| Weighted average - basic shares | 18,195 | 17,800 | 18,008 | 17,696 |
| Effect of dilutive securities, restricted stock units and options | 238 | 474 | 356 | 514 |
| Weighted average - diluted shares | 18,433 | 18,274 | 18,364 | 18,210 |
| Basic EPS | \$ 0.26 | \$ 0.23 | \$ 0.56 | \$ 0.50 |
| Diluted EPS | \$ 0.25 | \$ 0.22 | \$ 0.55 | \$ 0.49 |

Note 9. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) ("AOCI") for the three and nine months ended September 30, 2024 and 2023 are shown in the following table. The Company has two components of AOCI, which are available-for-sale securities and cash flow hedges, for the periods presented.

| Three Months Ended September 30, 2024 | Available-for-Sale Securities | Cash Flow Hedges | Total |
|---|-------------------------------|------------------|-------------|
| Balance, beginning of period | \$ (28,013) | \$ 5,861 | \$ (22,152) |
| Net unrealized gains (losses) during the period | 5,127 | (5,696) | (569) |
| Other comprehensive (loss) income, net of tax | 5,127 | (5,696) | (569) |
| Balance, end of period | \$ (22,886) | \$ 165 | \$ (22,721) |

| Nine Months Ended September 30, 2024 | Available-for-Sale Securities | Cash Flow Hedges | Total |
|---|-------------------------------|------------------|-------------|
| Balance, beginning of period | \$ (26,476) | \$ 2,316 | \$ (24,160) |
| Net unrealized gains (losses) during the period | 3,590 | (2,151) | 1,439 |
| Other comprehensive (loss) income, net of tax | 3,590 | (2,151) | 1,439 |
| Balance, end of period | \$ (22,886) | \$ 165 | \$ (22,721) |

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

| Three Months Ended September 30, 2023 | Available-for-Sale Securities | Cash Flow Hedges | Total |
|---|-------------------------------|------------------|--------------------|
| Balance, beginning of period | \$ (36,316) | \$ 5554 | \$ (30,762) |
| Net unrealized gains (losses) during the period | (7,046) | 2,974 | (4,072) |
| Other comprehensive income (loss), net of tax | (7,046) | 2,974 | (4,072) |
| Balance, end of period | <u>\$ (43,362)</u> | <u>\$ 8,528</u> | <u>\$ (34,834)</u> |

| Nine Months Ended September 30, 2023 | Available-for-Sale Securities | Cash Flow Hedges | Total |
|---|-------------------------------|------------------|--------------------|
| Balance, beginning of period | \$ (39,926) | \$ 3359 | \$ (36,567) |
| Net unrealized gains (losses) during the period | (7,018) | 5,169 | (1,849) |
| Net reclassification adjustment for losses realized in income | 3,582 | — | 3,582 |
| Other comprehensive income, net of tax | (3,436) | 5,169 | 1,733 |
| Balance, end of period | <u>\$ (43,362)</u> | <u>\$ 8,528</u> | <u>\$ (34,834)</u> |

There were no gains for the three months ended September 30, 2023, that were reclassified from AOCI into income. During the first quarter of 2023, \$40.3 million in investment securities available-for-sale, or 12% of the investment portfolio, were sold with a realized after-tax loss of \$ 3.6 million that was reclassified from AOCI into income. There were no gains or losses that were reclassified from AOCI into income for the three and nine months ended September 30, 2024.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

Note 10. Subordinated Notes

On October 13, 2020, the Company completed the private placement of \$ 20.0 million of its 4.875% Fixed to Floating Subordinated Notes due 2030 (the "Notes") to certain qualified institutional buyers and accredited investors. The Notes have a maturity date of October 15, 2030 and carry a fixed rate of interest of 4.875% for the first five years. Thereafter, the Notes will pay interest at 3-month Secured Overnight Financing Rate (SOFR) plus 471 basis points, resetting quarterly. The Notes include a right of prepayment without penalty on or after October 15, 2025. The Notes were structured to qualify as Tier 2 capital for regulatory purposes.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

Note 11. Revenue Recognition

The Company recognizes revenue in accordance with ASC 606 "Revenue from Contracts with Customers" ("Topic 606"). Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, gain on sale of securities, bank-owned life insurance income, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and personal checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Fees, Exchange and Other Service Charges

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges and are included in other income on the Company's consolidated statements of income. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. This income is reflected in other income on the Company's Consolidated Statements of Income.

Other Income

Other noninterest income consists of loan swap fees, insurance commissions, and other miscellaneous revenue streams not meeting the criteria above. When the Company enters into an interest rate swap agreement, the Company may receive an additional one-time payment fee which is recognized as income when received. The Company receives monthly recurring commissions based on a percentage of premiums issued and revenue is recognized when received. Any residual miscellaneous fees are recognized as they occur, and therefore, the Company determined this consistent practice satisfies the obligation for performance.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and nine months ended September 30, 2024 and 2023:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|--------|---------------------------------|------------|
| | 2024 | 2023 | 2024 | 2023 |
| Noninterest Income | | | | |
| In-scope of Topic 606 | | | | |
| Service Charges on Deposit Accounts | \$ 301 | \$ 284 | \$ 841 | \$ 731 |
| Fees, Exchange, and Other Service Charges | 102 | 98 | 281 | 269 |
| Other income | 9 | 13 | 63 | 90 |
| Noninterest Income (in-scope of Topic 606) | 412 | 395 | 1,185 | 1,090 |
| Noninterest Income (out-scope of Topic 606) | 403 | (170) | 896 | (4,601) |
| Total Non-interest (Loss) Income | \$ 815 | \$ 225 | \$ 2,081 | \$ (3,511) |

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of September 30, 2024 and December 31, 2023, the Company did not have any significant contract balances.

Contract Acquisition Costs

Under Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. The Company did not capitalize any contract acquisition costs during the three and nine months ended September 30, 2024 or 2023.

Notes to Consolidated Financial Statements
(\$ in thousands, except per share data)

Note 12. Supplemental Cash Flow Information

Below is additional information regarding the Company's cash flows for the nine months ended September 30, 2024 and 2023.

| | For the Nine Months Ended September 30, | |
|--|---|-----------|
| | 2024 | 2023 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for: | | |
| Interest on deposits and borrowed funds | \$ 39,634 | \$ 36,421 |
| Income taxes | 3,830 | 2,360 |
| Noncash investing and financing activities: | | |
| Unrealized gain (loss) on securities available-for-sale | 4,602 | (4,406) |
| Unrealized (loss) gain on interest rate swaps | (2,758) | 6,627 |
| Adoption of CECL accounting standard | — | (2,808) |
| Right-of-use assets obtained in the exchange for lease liabilities during the current period | — | 397 |
| Adoption of Investment accounting standard | 13 | — |

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

The following presents management's discussion and analysis of our consolidated financial condition at September 30, 2024 and December 31, 2023 and the results of our operations for the three and nine months ended September 30, 2024 and 2023. This discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto appearing elsewhere in this report and the audited consolidated financial statements and the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2023. Results of operations for the three and nine month periods ended September 30, 2024 are not necessarily indicative of the results of operations for the balance of 2024, or for any other period. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q, as well as other periodic reports filed with the U.S. Securities and Exchange Commission (the "SEC"), and written or oral communications made from time to time by or on behalf of FVCBankcorp, Inc. and our subsidiary (the "Company"), may contain statements relating to future events or our future results that are considered "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as "may," "could," "should," "will," "would," "believe," "anticipate," "estimate," "expect," "aim," "intend," "plan," or words or phrases of similar meaning. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- general business and economic conditions, including higher inflation and its impacts, nationally or in the markets that we serve could adversely affect, among other things, real estate valuations, unemployment levels, the ability of businesses to remain viable, consumer and business confidence, and consumer or business spending, which could lead to decreases in demand for loans, deposits, and other financial services that we provide and increases in loan delinquencies and defaults;
- the impact of the interest rate environment on our business, financial condition and results of operation, and its impact on the composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest sensitive assets and liabilities;
- changes in our liquidity requirements could be adversely affected by changes in its assets and liabilities;
- changes in the assumptions underlying the establishment of reserves for possible credit losses and the possibility that future credit losses may be higher than currently expected;
- changes in market conditions, specifically declines in the commercial and residential real estate market, volatility and disruption of the capital and credit markets, and soundness of other financial institutions that we do business with;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), inflation, interest rate, market and monetary fluctuations;
- Our investment securities portfolio is subject to credit risk, market risk, and liquidity risk as well as changes in the estimates used to value the securities in the portfolio;
- declines in our common stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to record a noncash impairment charge to earnings in future periods;
- geopolitical conditions, including acts or threats of terrorism, or actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- the occurrence of significant natural disasters, including severe weather conditions, floods, health related issues or emergencies, and other catastrophic events;
- the management of risks inherent in our real estate loan portfolio, and the risk of a prolonged downturn in the real estate market, which could impair the value of loan collateral and the ability to sell collateral upon any foreclosure;

- the impact of changes in bank regulatory conditions, including laws, regulations and policies concerning capital requirements, deposit insurance premiums, taxes, securities, and the application thereof by regulatory bodies;
- the effect of changes in accounting policies and practices, as may be adopted from time to time by bank regulatory agencies, the SEC, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board ("FASB") or other accounting standards setting bodies;
- competitive pressures among financial services companies, including the timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- the effect of acquisitions and partnerships we may make, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- Our involvement, from time to time, in legal proceedings and examination and remedial actions by regulators; and
- potential exposure to fraud, negligence, computer theft and cyber-crime, and our ability to maintain the security of our data processing and information technology systems.

The foregoing factors should not be considered exhaustive and should be read together with other cautionary statements that are included in our Annual Report on Form 10-K for the year ended December 31, 2023, including those discussed in the section entitled "Risk Factors". If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-Q. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect our operations, financial condition, or results of operations.

Overview

We are a bank holding company headquartered in Fairfax County, Virginia. Our sole subsidiary, FVCbank (the "Bank"), was formed in November 2007 as a community-oriented, locally-owned and managed commercial bank under the laws of the Commonwealth of Virginia. The Bank offers a wide range of traditional bank loan and deposit products and services to both our commercial and retail customers. Our commercial relationship officers focus on attracting small and medium sized businesses, commercial real estate developers and builders, including government contractors, non-profit organizations, and professionals. Our approach to our market features competitive customized financial services offered to customers and prospects in a personal relationship context by seasoned professionals.

On August 31, 2021, we announced that the Bank made an investment in Atlantic Coast Mortgage, LLC ("ACM") for \$20.4 million to obtain a 28.7% ownership interest in ACM. The Bank provides a warehouse lending facility to ACM, which includes a construction-to-permanent financing line, and has developed portfolio mortgage products to diversify our held for investment loan portfolio.

On December 15, 2022, the Company announced that the Board of Directors approved a five-for-four split of the Company's common stock in the form of a 25% stock dividend for shareholders of record on January 9, 2023, payable on January 31, 2023. Earnings per share and all other per share information reflected herein have been adjusted for the five-for-four split of the Company's common stock for comparative purposes.

Net interest income is our primary source of revenue. We define revenue as net interest income plus noninterest income. We manage our balance sheet and interest rate risk exposure to maximize, and concurrently stabilize, net interest income. We do this by monitoring our liquidity position and the spread between the interest rates earned on interest-earning assets and the interest rates paid on interest-bearing liabilities. We attempt to minimize our exposure to interest rate risk, but are unable to eliminate it entirely. In addition to managing interest rate risk, we also analyze our loan portfolio for exposure to credit risk. Loan defaults and foreclosures are inherent risks in the banking industry, and we attempt to limit our exposure to these risks by carefully underwriting and then monitoring our extensions of credit. In addition to net interest income, noninterest income is a complementary source of revenue for us and includes, among other things, service charges on deposits and loans, income from minority membership interest in ACM, merchant services fee income, insurance commission income, income from bank owned life insurance ("BOLI"), and gains and losses on sales of investment securities available-for-sale.

Critical Accounting Policies

General

The accounting principles we apply under U.S. generally accepted accounting principles ("GAAP") are complex and require management to apply significant judgment to various accounting, reporting and disclosure matters. Management must use assumptions, judgments and estimates when applying these principles where precise measurements are not possible or practical. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such judgments, assumptions and estimates may have a significant impact on the consolidated financial statements. Actual results, in fact, could differ from initial estimates.

The accounting policies we view as critical are those relating to judgments, assumptions and estimates regarding the determination of the allowance for credit losses - loans & reserve for unfunded commitments, and fair value measurements.

Allowance for Credit Losses - Loans & Unfunded Commitments

We maintain the allowance for credit losses ("ACL") at a level that represents management's best estimate of expected losses in our loan portfolio. We adopted the provisions of the current expected credit losses ("CECL") accounting standard as of January 1, 2023 in accordance with the required implementation date and recorded the impact of the adoption to retained earnings, net of deferred income taxes, as required by the standard. Prior to the adoption of CECL, we utilized an incurred loss model to derive our best estimate of the ACL.

Accounting Standards Codification ("ASC") 326 requires that an estimate of CECL be immediately recognized and reevaluated over the contractual life of the financial asset. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loan portfolio. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries are recorded to the extent they do not exceed the aggregate of amounts previously and expected to be charged-off.

Reserves on loans that do not share risk characteristics are evaluated on an individual basis. Nonaccrual loans are specifically reviewed for loss potential and when deemed appropriate are assigned a reserve based on an individual evaluation. The remainder of the portfolio, representing all loans not evaluated individually for impairment, is segmented based on call report code and processed through a cash flow valuation model. In particular, loan-level probability of default ("PD") and severity (also referred to as loss given default ("LGD")) is applied to derive a baseline expected loss as of the valuation date. These expected default and severity rates, which are regression-derived and based on peer historical loan-level performance data, are calibrated to incorporate our reasonable and supportable forecast of future losses as well as any necessary qualitative adjustments.

Typically, financial institutions use their historical loss experience and trends in losses for each loan segment which are then adjusted for portfolio trends and economic and environmental factors in determining the ACL. Since the Bank's inception in 2007, we have experienced minimal loss history within our loan portfolio. Due to the fact that limited internal loss history exists to generate statistical significance, we determined it was most prudent to rely on peer data when deriving our best estimate of PD and LGD. As part of our estimation process, we will continue to assess the reasonableness of the data, assumptions, and model methodology utilized to derive our allowance for credit losses.

For each of the modeled loan segments, we generate cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, PD rates, and LGD rates. The modeling of expected prepayment speeds is based on internal loan-level historical data. For our cash flow model, we utilize national unemployment for reasonable and supportable forecasting of expected default. To further adjust the ACL for expected losses not already within the quantitative component of the calculation, we may consider qualitative factors as prescribed in ASC 326.

Financial instruments include off-balance sheet credit instruments such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded. We record a reserve for unfunded commitments on off-balance sheet credit exposures through a charge to provision for credit loss expense in our Consolidated Statement of Income. The reserve for unfunded commitments is estimated by call report code segmentation as of the valuation date under the CECL model using the same methodologies as portfolio loans taking utilization rates into consideration. The reserve for unfunded commitments is reflected as a liability on our Consolidated Statement of Condition.

While our methodology in establishing the ACL attributes portions of a combined reserve to multiple elements, we believe that the combined allowance for credit losses (which is inclusive of the reserve for unfunded commitments) represents the most appropriate coverage metric for loss absorption purposes.

Our methodology utilized in the estimation of the ACL, which is performed at least quarterly, is designed to be dynamic and responsive to changes in our loan portfolio credit quality, composition, and forecasted economic conditions. The review of the reasonableness and appropriateness of the ACL is reviewed by the ACL Committee for approval as of the valuation date. Additionally, information is provided to the Board of Directors on a quarterly basis along with our consolidated financial statements.

Credit losses are an inherent part of our business and, although we believe the methodologies for determining the ACL and the current level of the allowance and reserve on unfunded commitments are appropriate, it is possible that there may be unidentified losses in the portfolio at any particular time that may become evident at a future date pursuant to additional internal analysis or regulatory comment. Additional provisions for such losses, if necessary, would be recorded, and would negatively impact earnings.

Collateral Dependent Financial Assets

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent financial assets where we have determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and we expect repayment of the financial asset to be provided substantially through the sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the net present value from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

Allowance for Credit Losses - Securities

We evaluate our available-for-sale and held-to-maturity debt securities portfolios for expected credit losses as of the valuation date under ASC 326. For available-for-sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or if it is more likely than not that we will be required to sell, the security before recovery of our amortized cost basis. If either criterion is met, the security's amortized cost basis is written down to fair value through income during the current period. For available-for-sale debt securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from credit losses or other driving factors. If our assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, an ACL is recorded for the credit loss (which represents the difference between the expected cash flows and amortized cost basis), limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.

The entire amount of an impairment loss is recognized in earnings only when: (1) we intend to sell the security; or (2) it is more likely than not that we will have to sell the security before recovery of our amortized cost basis; or (3) we do not expect to recover the entire amortized cost basis of the security. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders' equity as comprehensive income, net of deferred taxes.

Changes in the ACL are recorded as a provision for (or reversal of) credit losses. Losses are charged against the ACL when we believe the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Any impairment not recorded through an ACL is recognized in other comprehensive income as a noncredit-related impairment.

As part of our estimation process, we have made a policy election to exclude accrued interest from the amortized cost basis of available-for-sale debt securities and report accrued interest separately in other assets in the Consolidated Statement of Condition. Available-for-sale debt securities are placed on nonaccrual status when we no longer expect to receive all contractual amounts due, which is generally at 90 days past due. Accrued interest receivable is reversed against interest income when a security is placed on nonaccrual status. Accordingly, we do not recognize an ACL against accrued interest receivable. This approach is consistent with our nonaccrual policy implemented for our loan portfolio.

We separately evaluate our held-to-maturity investment securities for any credit losses. If we determine that a security indicates evidence of deteriorated credit quality, the security is individually-evaluated and a discounted cash flow analysis is performed and compared to the amortized cost basis. As of September 30, 2024, we had one security classified as held-to-maturity with an amortized cost basis of \$265 thousand with the remainder of the securities portfolio held as available-for-sale.

Fair Value Measurements

We determine the fair values of financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Our investment securities available-for-sale are recorded at fair value using reliable and unbiased evaluations by an industry-wide valuation service. This service uses evaluated pricing models that vary based on asset class and include available trade, bid, and other market information. Generally, the methodology includes broker quotes, proprietary models, vast descriptive terms and conditions databases, as well as extensive quality control programs. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

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

Overview

We recorded net income of \$4.7 million, or \$0.25 diluted earnings per share, for the three months ended September 30, 2024, compared to net income of \$4.0 million, or \$0.22 diluted earnings per share, for the three months ended September 30, 2023, an increase of \$630 thousand, or 16%. Net interest income increased \$878 thousand, or 7%, to \$14.2 million for the three months ended September 30, 2024, compared to \$13.3 million for the same period of 2023. We released provisioning for credit losses totaling \$200 thousand for the three months ended September 30, 2024, compared to a release of reserves for credit losses totaling \$729 thousand for the three months ended September 30, 2023. Noninterest income was \$815 thousand and \$225 thousand for the three months ended September 30, 2024 and 2023, respectively. Noninterest expense was \$9.2 million for the three months ended September 30, 2024, compared to \$9.0 million for the three months ended September 30, 2023, a increase of \$147 thousand, or 2%.

The annualized return on average assets for the three months ended September 30, 2024 and 2023 was 0.85% and 0.70%, respectively. The annualized return on average equity for the three months ended September 30, 2024 and 2023 was 8.15% and 7.57%, respectively.

For the nine months ended September 30, 2024, we recorded net income of \$10.2 million, or \$0.55 diluted earnings per share, compared to net income of \$8.9 million, or \$0.49 diluted earnings per share for the nine months ended September 30, 2023. Net income for the nine months ended September 30, 2024 includes the surrender of certain BOLI policies with an aggregate cash surrender value of \$48.0 million. Upon the surrender, we received a cash payout and were required to accrue additional income tax on the appreciation of those policies which had previously been treated as tax-exempt income. This resulted in additional statutory income tax expense of \$1.6 million and tax penalties of \$722 thousand. The tax penalties related to the surrender of the BOLI were recorded in income tax expense. Additionally, net income for the nine months ended September 30, 2023 included losses on the sale of available-for-sale investment securities totaling \$4.6 million.

Net interest income for the nine months ended September 30, 2024 was \$40.7 million, compared to \$41.7 million for the same period in 2023, a decrease of \$1.1 million, or 3%. Provision for credit losses for the nine months ended September 30, 2024 was \$6 thousand, compared to \$132 thousand for the same period of 2023. Non-interest income was \$2.1 million compared to a loss of \$3.5 million for the nine months ended September 30, 2024 and 2023, respectively. Noninterest expense was \$26.8 million and \$27.3 million for the nine months ended September 30, 2024 and 2023, respectively, a decrease of \$444 thousand, or 2%.

Commercial bank operating earnings, which exclude the nonrecurring taxes on the surrender of our BOLI policies recorded during the first quarter of 2024 and the after-tax losses on the sale of investment securities available-for-sale recorded during the first quarter 2023, for the three months ended September 30, 2024 and September 30, 2023 were \$4.7 million and \$4.0 million, respectively. For the nine months ended September 30, 2024 and September 30, 2023, commercial bank operating earnings were \$12.6 million and \$12.5 million, respectively.

Diluted commercial bank operating earnings per share for the three months ended September 30, 2024 and September 30, 2023 were each \$0.25 and \$0.22, respectively. For the nine months ended September 30, 2024 and 2023, diluted commercial bank operating earnings per share were \$0.68 and \$0.69, respectively.

We consider commercial bank operating earnings a useful financial measure of our operating performance. Commercial bank operating earnings is determined by methods other than in accordance with GAAP. A reconciliation of non-GAAP financial measures to their most comparable financial measure in accordance with GAAP can be found in the tables below.

Reconciliation of Net Income (GAAP) to Commercial Bank Operating Earnings (Non-GAAP)

For the Three and Nine Months Ended September 30, 2024 and 2023
(Dollars in thousands, except per share data)

| | For the Three Months Ended September 30, | |
|---|--|----------|
| | 2024 | 2023 |
| Net income (as reported) | \$ 4,669 | \$ 4,039 |
| Non-GAAP Commercial Bank Operating Earnings | \$ 4,669 | \$ 4,039 |
| Earnings per share - basic (GAAP net income) | \$ 0.26 | \$ 0.23 |
| Earnings per share - basic (non-GAAP core bank operating earnings) | \$ 0.26 | \$ 0.23 |
| Earnings per share - diluted (GAAP net income) | \$ 0.25 | \$ 0.22 |
| Adjusted Earnings per share - diluted (non-GAAP core bank operating earnings) | \$ 0.25 | \$ 0.22 |
| Return on average assets (GAAP net income) | 0.85 % | 0.70 % |
| Adjusted Return on average assets (non-GAAP core bank operating earnings) | 0.85 % | 0.70 % |
| Return on average equity (GAAP net income) | 8.15 % | 7.57 % |
| Adjusted Return on average equity (non-GAAP core bank operating earnings) | 8.15 % | 7.57 % |

| | For the Nine Months Ended September 30, | |
|--|---|-----------|
| | 2024 | 2023 |
| Net income (as reported) | \$ 10,164 | \$ 8,892 |
| Add: Loss on sale of available-for-sale investment securities | — | 4,592 |
| Add: Non-recurring tax and 10% modified endowment contract penalty on early surrender of BOLI policies | 2,386 | — |
| (Subtract) Add: (Provision) Benefit for income taxes associated with non-GAAP adjustments | — | (1,010) |
| Non-GAAP Commercial Bank Operating Earnings, excluding above items | \$ 12,550 | \$ 12,474 |
| Earnings per share - basic (GAAP net income) | \$ 0.56 | \$ 0.50 |
| Adjusted Earnings per share - Non-GAAP expenses including provision for income taxes | \$ 0.14 | \$ 0.20 |
| Earnings per share - basic (non-GAAP core bank operating earnings) | \$ 0.70 | \$ 0.70 |
| Earnings per share - diluted (GAAP net income) | \$ 0.55 | \$ 0.49 |
| Adjusted Earnings per share - Non-GAAP expenses including provision for income taxes | \$ 0.13 | \$ 0.20 |
| Adjusted Earnings per share - diluted (non-GAAP core bank operating earnings) | \$ 0.68 | \$ 0.69 |
| Return on average assets (GAAP net income) | 0.62 % | 0.52 % |
| Adjusted Non-GAAP expenses including provision for income taxes | 0.15 % | 0.21 % |
| Adjusted Return on average assets (non-GAAP core bank operating earnings) | 0.77 % | 0.73 % |
| Return on average equity (GAAP net income) | 6.04 % | 5.68 % |
| Adjusted Non-GAAP expenses including provision for income taxes | 1.42 % | 2.29 % |
| Adjusted Return on average equity (non-GAAP core bank operating earnings) | 7.46 % | 7.97 % |

Net Interest Income/Margin

Net interest income is our primary source of revenue, representing the difference between interest and fees earned on interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. The following table presents average balance information, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended September 30, 2024 and 2023.

Average Balance Sheets and Interest Rates on Interest-Earning Assets and Interest-Bearing Liabilities

For the Three Months Ended September 30, 2024 and 2023

(Dollars in thousands)

| | 2024 | | | 2023 | | |
|---|--------------------|--------------------------------|---------------------------|--------------------|--------------------------------|---------------------------|
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans receivable, net of fees | | | | | | |
| Commercial real estate | \$ 1,075,258 | \$ 13,969 | 5.20 % | \$ 1,106,429 | \$ 13,586 | 4.91 % |
| Commercial and industrial | 268,484 | 5,558 | 8.28 % | 218,815 | 4,071 | 7.44 % |
| Commercial construction | 168,155 | 3,175 | 7.55 % | 154,569 | 2,780 | 7.19 % |
| Consumer real estate | 334,385 | 4,047 | 4.84 % | 363,713 | 4,359 | 4.79 % |
| Warehouse facilities | 26,043 | 489 | 7.51 % | 19,944 | 331 | 6.65 % |
| Consumer nonresidential | 6,827 | 143 | 8.38 % | 5,349 | 116 | 8.67 % |
| Total loans ⁽¹⁾ | 1,879,152 | 27,381 | 5.83 % | 1,868,819 | 25,243 | 5.40 % |
| Investment securities ⁽²⁾ | 205,019 | 1,050 | 2.05 % | 281,382 | 1,308 | 1.86 % |
| Interest-bearing deposits at other financial institutions | 57,984 | 802 | 5.50 % | 64,722 | 876 | 5.37 % |
| Total interest-earning assets and interest income | \$ 2,142,155 | \$ 29,233 | 5.46 % | \$ 2,214,923 | \$ 27,427 | 4.95 % |
| Non-interest-earning assets: | | | | | | |
| Cash and due from banks | 7,443 | | | 6,721 | | |
| Premises and equipment, net | 892 | | | 1,083 | | |
| Accrued interest and other assets | 56,312 | | | 99,575 | | |
| Allowance for credit losses | (19,219) | | | (19,432) | | |
| Total assets | \$ 2,187,583 | | | \$ 2,302,870 | | |
| Liabilities and Stockholders' Equity | | | | | | |
| Interest - bearing liabilities: | | | | | | |
| Interest - bearing deposits: | | | | | | |
| Interest checking | \$ 620,256 | \$ 5,652 | 3.62 % | \$ 641,746 | \$ 5,134 | 3.17 % |
| Savings and money markets | 362,663 | 3,482 | 3.82 % | 240,504 | 1,544 | 2.55 % |
| Time deposits | 264,125 | 2,929 | 4.41 % | 359,217 | 3,550 | 3.92 % |
| Wholesale deposits | 249,851 | 2,136 | 3.40 % | 366,667 | 3,571 | 3.86 % |
| Total interest - bearing deposits | 1,496,895 | 14,199 | 3.77 % | 1,608,134 | 13,799 | 3.40 % |
| Other borrowed funds | 57,000 | 563 | 3.93 % | 9,141 | 35 | 1.53 % |
| Subordinated notes, net of issuance costs | 19,656 | 257 | 5.21 % | 19,597 | 258 | 5.21 % |
| Total interest-bearing liabilities and interest expense | \$ 1,573,551 | \$ 15,019 | 3.80 % | \$ 1,636,872 | \$ 14,092 | 3.42 % |
| Non-interest-bearing liabilities: | | | | | | |
| Demand deposits | 358,618 | | | 425,807 | | |
| Other liabilities | 26,252 | | | 26,681 | | |
| Common stockholders' equity | 229,162 | | | 213,510 | | |
| Total liabilities and stockholders' equity | \$ 2,187,583 | | | \$ 2,302,870 | | |
| Net interest income and net interest margin | | \$ 14,214 | 2.64 % | | \$ 13,335 | 2.39 % |

(1) Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the quarters presented. Net loan fees and late charges included in interest income on loans totaled \$448 thousand and \$612 thousand for the quarters ended September 30, 2024 and 2023, respectively.

(2) The average balances for investment securities includes restricted stock.

The level of net interest income is affected primarily by variations in the volume and mix of these assets and liabilities, as well as changes in interest rates.

The following table shows the effect that these factors had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities for the three months ended September 30, 2024 as compared to the three months ended September 30, 2023.

Rate and Volume Analysis
For the Three Months Ended September 30, 2024 and 2023
(Dollars in thousands)

| | 2024 Compared to 2023 | | |
|---|-----------------------|-----------------|------------------------|
| | Average Volume | Average Rate | Increase (Decrease) |
| Interest income: | | | |
| Loans ⁽¹⁾ : | | | |
| Commercial real estate | \$ (383) | \$ 766 | \$ 383 |
| Commercial and industrial | 924 | 563 | 1,487 |
| Commercial construction | 244 | 151 | 395 |
| Consumer residential | (351) | 39 | (312) |
| Warehouse facilities | 101 | 57 | 158 |
| Consumer nonresidential | 32 | (5) | 27 |
| Total loans ⁽¹⁾ | 567 | 1,571 | 2,138 |
| Investment securities | (355) | 98 | (257) |
| Deposits at other financial institutions and federal funds sold | (90) | 15 | (75) |
| Total interest income | 122 | 1,684 | 1,806 |
| Interest expense: | | | |
| Interest - bearing deposits: | | | |
| Interest checking | (174) | 692 | 518 |
| Savings and money markets | 796 | 1,142 | 1,938 |
| Time deposits | (953) | 332 | (621) |
| Wholesale deposits | (1,152) | (283) | (1,435) |
| Total interest - bearing deposits | (1,483) | 1,883 | 400 |
| Other borrowed funds | 184 | 345 | 529 |
| Subordinated notes, net of issuance costs | (2) | — | (2) |
| Total interest expense | (1,301) | 2,228 | 927 |
| Net interest income | \$ 1,423 | \$ (544) | \$ 879 |

(1) Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the years presented.

Net interest income totaled \$14.2 million, an increase of \$878 thousand, or 7%, for the three months ended September 30, 2024, compared to the three months ended September 30, 2023. The increase in net interest income is primarily a result of an increase in total interest income of \$1.8 million, or 7%, for the third quarter of 2024 compared to the third quarter of 2023. Loan interest income increased \$2.1 million, or 8%, to \$27.4 million for the three months ended September 30, 2024, compared to \$25.2 million for the three months ended September 30, 2023. Interest expense increased \$926 thousand for the three months ended September 30, 2024 as compared to the same period of 2023.

Average earning assets decreased \$72.8 million to \$2.14 billion during the third quarter of 2024 as compared to \$2.21 billion for the same period of 2023, which was primarily related to the sales of investment securities available-for-sale that were completed during the first and fourth quarters of 2023, decreasing the average balances of our investment securities by \$76.4 million.

Interest income for the three months ended September 30, 2024 increased \$1.8 million, or 7%, to \$29.2 million, from \$27.4 million for the three months ended September 30, 2023. Loan interest income during the third quarter of 2024 increased \$2.1 million, or 8%, as compared to the year ago quarter due to both an increase in loan volume and an increase in yields earned on the loan portfolio. Income from investment securities decreased \$258 thousand for the three months ended September 30, 2024 compared to the same period of 2023, primarily as a result of the aforementioned sales of investment securities executed during 2023. Interest income from deposits at other financial institutions decreased \$74 thousand to \$802 thousand for the third quarter of 2024 as compared to the third quarter of 2023, which was primarily due to lower average balances.

Average interest-bearing deposits decreased \$111.2 million to \$1.50 billion for the three months ended September 30, 2024 compared to \$1.61 billion for the three months ended September 30, 2023, primarily as a result of a decrease in wholesale deposits. Average wholesale deposits decreased \$116.8 million to \$249.9 million for the three months ended September 30, 2024 compared to \$366.7 million for the same period in 2023. Average non-interest-bearing deposits decreased \$67.2 million to \$358.6 million for the three months ended September 30, 2024 compared to \$425.8 million for the same period in 2023. Average other borrowed funds, which primarily include federal funds purchased and advances from the Federal Home Loan Bank of Atlanta ("FHLB"), increased \$47.9 million to \$57.0 million for the three months ended September 30, 2024 compared to \$9.1 million for the three months ended September 30, 2023.

Interest expense for the three months ended September 30, 2024 increased \$926 thousand to \$15.0 million, or 7%, from \$14.1 million for the three months ended September 30, 2023. Deposit interest expense for the third quarter of 2024 increased \$400 thousand compared to the year ago quarter primarily as a result of increased interest rates on interest-bearing deposits. Interest expense on other borrowed funds increased \$528 thousand for the three months ended September 30, 2024 compared to the same period in 2023.

Our net interest margin, on a tax equivalent basis, for the three months ended September 30, 2024 and 2023 was 2.64% and 2.39%, respectively, an increase of 25 basis points, or 10%. The yield on interest-earning assets increased 51 basis points to 5.46% for the three months ended September 30, 2024, compared to 4.95% for the same period of 2023. The average yield of the loan portfolio for the three months ended September 30, 2024 and 2023 was 5.83% and 5.40%, respectively, an increase of 43 basis points. The cost of interest-bearing deposits increased 37 basis points to 3.77% for the three months ended September 30, 2024, compared to 3.40% for the same period of 2023, which was primarily attributable to the repricing of our interest-bearing deposits due to higher interest rates. Cost of deposits (which includes non-interest-bearing deposits) was 3.04% for the three months ended September 30, 2024 compared to 2.69% for the three months ended September 30, 2023. Cost of other borrowed funds increased to 3.93% for the three months ended September 30, 2024 compared to 1.53% for the three months ended September 30, 2023.

The following table presents average balance information, interest income, interest expense and the corresponding average yields earned and rates paid for the nine months ended September 30, 2024 and 2023.

Average Balance Sheets and Interest Rates on Interest-Earning Assets and Interest-Bearing Liabilities
For the Nine months ended September 30, 2024 and 2023
(Dollars in thousands)

| | 2024 | | | 2023 | | |
|---|---------------------|--------------------------------|---------------------------|---------------------|--------------------------------|---------------------------|
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans receivable, net of fees | | | | | | |
| Commercial real estate | \$ 1,084,436 | \$ 41,325 | 5.08 % | \$ 1,107,935 | \$ 39,807 | 4.79 % |
| Commercial and industrial | 250,106 | 14,941 | 7.97 % | 206,447 | 11,254 | 7.27 % |
| Commercial construction | 161,159 | 8,845 | 7.32 % | 154,862 | 8,233 | 7.09 % |
| Consumer real estate | 346,771 | 12,604 | 4.85 % | 356,430 | 12,648 | 4.73 % |
| Warehouse facilities | 18,885 | 1,060 | 7.48 % | 24,272 | 1,265 | 6.95 % |
| Consumer nonresidential | 6,146 | 377 | 8.18 % | 6,062 | 418 | 9.20 % |
| Total loans ⁽¹⁾ | <u>1,867,503</u> | <u>79,152</u> | 5.65 % | <u>1,856,008</u> | <u>73,625</u> | 5.29 % |
| Investment securities ⁽²⁾ | 210,536 | 3,305 | 2.09 % | 299,078 | 4,317 | 1.93 % |
| Interest-bearing deposits at other financial institutions | 38,397 | 1,575 | 5.48 % | 52,711 | 2,022 | 5.13 % |
| Total interest-earning assets and interest income | <u>\$ 2,116,436</u> | <u>\$ 84,032</u> | 5.29 % | <u>\$ 2,207,797</u> | <u>\$ 79,964</u> | 4.83 % |
| Non-interest-earning assets: | | | | | | |
| Cash and due from banks | 6,982 | | | 6,159 | | |
| Premises and equipment, net | 949 | | | 1,147 | | |
| Accrued interest and other assets | 67,311 | | | 96,985 | | |
| Allowance for credit losses | (19,012) | | | (18,523) | | |
| Total assets | <u>\$ 2,172,666</u> | | | <u>\$ 2,293,565</u> | | |
| Liabilities and Stockholders' Equity | | | | | | |
| Interest - bearing liabilities: | | | | | | |
| Interest - bearing deposits: | | | | | | |
| Interest checking | \$ 556,650 | \$ 14,215 | 3.41 % | \$ 564,765 | \$ 11,595 | 2.74 % |
| Savings and money markets | 332,663 | 9,071 | 3.64 % | 259,308 | 4,307 | 2.22 % |
| Time deposits | 283,897 | 9,240 | 4.35 % | 351,762 | 9,292 | 3.53 % |
| Wholesale deposits | 268,295 | 7,108 | 3.54 % | 332,217 | 9,398 | 3.78 % |
| Total interest - bearing deposits | <u>1,441,505</u> | <u>39,634</u> | 3.67 % | <u>1,508,052</u> | <u>34,592</u> | 3.07 % |
| Other borrowed funds | 88,082 | 2,949 | 4.47 % | 98,378 | 2,862 | 3.89 % |
| Subordinated notes, net of issuance costs | 19,640 | 773 | 5.25 % | 19,583 | 773 | 5.27 % |
| Total interest-bearing liabilities and interest expense | <u>\$ 1,549,227</u> | <u>\$ 43,356</u> | 3.74 % | <u>\$ 1,626,013</u> | <u>\$ 38,227</u> | 3.14 % |
| Non-interest-bearing liabilities: | | | | | | |
| Demand deposits | 372,289 | | | 433,335 | | |
| Other liabilities | 26,759 | | | 25,413 | | |
| Common stockholders' equity | 224,391 | | | 208,804 | | |
| Total liabilities and stockholders' equity | <u>\$ 2,172,666</u> | | | <u>\$ 2,293,565</u> | | |
| Net interest income and net interest margin | | <u>\$ 40,676</u> | 2.57 % | | <u>\$ 41,737</u> | 2.53 % |

⁽¹⁾ Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the periods presented. Net loan fees and late charges included in interest income on loans totaled \$1.2 million and \$1.5 million for the nine months ended September 30, 2024 and 2023, respectively.

⁽²⁾ The average balances for investment securities includes restricted stock.

The following table shows the effect of variations in the volume and mix of our assets and liabilities, as well as the changes in interest rates had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities for the nine months ended September 30, 2024.

Rate and Volume Analysis
For the Nine months ended September 30, 2024 and 2023
(Dollars in thousands)

| | 2024 Compared to 2023 | | |
|---|-----------------------|-----------------|------------------------|
| | Average Volume | Average Rate | Increase (Decrease) |
| Interest income: | | | |
| Loans ⁽¹⁾ : | | | |
| Commercial real estate | \$ (844) | \$ 2,363 | \$ 1,519 |
| Commercial and industrial | 2,381 | 1,307 | 3,688 |
| Commercial construction | 335 | 277 | 612 |
| Consumer residential | (343) | 298 | (45) |
| Warehouse facilities | (281) | 76 | (205) |
| Consumer nonresidential | 6 | (47) | (41) |
| Total loans ⁽¹⁾ | \$ 1,253 | \$ 4,274 | \$ 5,527 |
| Investment securities ⁽²⁾ | \$ (1,282) | \$ 270 | \$ (1,012) |
| Deposits at other financial institutions and federal funds sold | (551) | 104 | (447) |
| Total interest income | \$ (580) | \$ 4,648 | \$ 4,068 |
| Interest expense: | | | |
| Interest - bearing deposits: | | | |
| Interest checking | \$ (166) | \$ 2,786 | 2,620 |
| Savings and money markets | 1,219 | 3,544 | 4,764 |
| Time deposits | (1,793) | 1,742 | (52) |
| Wholesale deposits | (1,809) | (481) | (2,290) |
| Total interest - bearing deposits | \$ (2,549) | \$ 7,591 | \$ 5,042 |
| Other borrowed funds | (300) | 387 | 88 |
| Subordinated notes, net of issuance costs | 2 | (3) | (1) |
| Total interest expense | \$ (2,847) | \$ 7,976 | \$ 5,129 |
| Net interest income | \$ 2,267 | \$ (3,328) | \$ (1,061) |

⁽¹⁾ Non-accrual loans are included in average balances and do not have a material effect on the average yield. Interest income on non-accruing loans was not material for the years presented.

⁽²⁾ The average yields for investment securities are reported on a fully taxable-equivalent basis at a rate of 22% for September 30, 2024 and September 30, 2023.

Net interest income for the nine months ended September 30, 2024 and September 30, 2023, was \$40.7 million and \$41.7 million, respectively, a decrease of \$1.1 million, or 3%. The decrease in net interest income is primarily due to an increase in funding costs, which have increased precipitously as a result of Federal Reserve monetary policy, coupled with the need to meet intense competition from market area banks, brokerages, other financial institutions, and the U.S. Treasury.

Average earning assets decreased \$91.4 million, to \$2.12 billion, during the nine months ended September 30, 2024 as compared to \$2.21 billion for the same period of 2023, which is primarily related to our sales of investment securities available-for-sale completed during 2023.

Interest income for the nine months ended September 30, 2024 increased \$4.1 million to \$84.0 million from \$80.0 million for the nine months ended September 30, 2023. Loan interest income for the nine months ended September 30, 2024 increased \$5.5 million as compared to the same nine month period of 2023, primarily as a result of the increase in yields earned on the loan portfolio. Income from investment securities decreased \$1.0 million for the nine months ended September 30, 2024 compared to the same period of 2023, primarily as a result of the sales of investment securities executed during 2023. Income from deposits at other financial institutions decreased \$447 thousand year-over-year, as excess liquidity was used to fund loan originations and paydown costly wholesale fundings.

Total average interest-bearing deposits increased \$66.5 million to \$1.44 billion for the nine months ended September 30, 2024 compared to \$1.51 billion for the nine months ended September 30, 2023. Average noninterest-bearing deposits decreased \$61.0 million to \$372.3 million for the nine months ended September 30, 2024 compared to \$433.3 million for the same period of 2023. Average wholesale deposits decreased \$63.9 million to \$268.3 million for the nine months ended September 30, 2024 compared to \$332.2 million for the same period in 2023. Average other borrowed funds, which include federal funds purchased and FHLB advances, decreased \$10.3 million to \$88.1 million for the nine months ended September 30, 2024, compared to \$98.4 million for the same period of 2023.

Interest expense for the nine months ended September 30, 2024 increased \$5.1 million to \$43.4 million from \$38.2 million for the nine months ended September 30, 2023. Deposit interest expense for the year-to-date period of 2024 increased \$5.0 million compared to the year ago nine month period primarily as a result of increased interest rates paid on deposits.

Our net interest margin for the nine months ended September 30, 2024 and 2023 was 2.57% and 2.53% respectively. The increase in net interest margin is a result of continued improvement in the yields earned on our loan portfolio and our management to control funding costs. The yield on interest-earning assets increased 46 basis points to 5.29% for the nine months ended September 30, 2024, compared to 4.83% for the same period of 2023. The average yield of the loan portfolio for the nine month periods ended September 30, 2024 and 2023 was 5.65% and 5.29%, respectively, an increase of 36 basis points. The cost of interest-bearing deposits increased 60 basis points to 3.67% for the nine months ended September 30, 2024, compared to 3.07% for the same period of 2023, which was primarily attributable to the repricing of our interest-bearing deposits due to higher interest rates. Cost of deposits (which includes noninterest-bearing deposits) was 2.92% for the nine months ended September 30, 2024 compared to 2.38% for the same nine month period of 2023. Cost of other borrowed funds increased 58 basis points to 4.47% for the nine months ended September 30, 2024 compared to 3.89% for the nine months ended September 30, 2023.

Average balances of nonperforming loans, which include nonaccrual loans, are included in the net interest margin calculation and did not have a material impact on our net interest margin in 2024 and 2023.

Provision Expense and Allowance for Credit Losses

Our policy is to maintain the ACL at a level that represents our best estimate of expected losses in the loan portfolio as of the valuation date. Both the amount of the provision and the level of the allowance for credit losses are impacted by many factors, including general and industry-specific economic conditions, actual and expected credit losses, historical trends and specific conditions of individual borrowers.

We recorded a release of provision for credit losses totaling \$200 thousand and \$729 thousand for the three months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024 and 2023, provision for credit losses totaled \$6 thousand and \$132 thousand, respectively. The allowance for credit losses was \$19.1 million and \$18.9 million at September 30, 2024 and at December 31, 2023, respectively. Our allowance for credit losses on loans as a percent of total loans, net of deferred fees and costs, was 1.02 and 1.03% at September 30, 2024 and December 31, 2023, respectively.

We lend to well-established and relationship-driven borrowers which has contributed to our track record of low historical credit losses. We continue to maintain our disciplined credit guidelines during the current rate environment. We proactively monitor the impact of interest rates on our adjustable loans as the industry navigates through this economic cycle of increased inflation and higher interest rates. Nonperforming loans at September 30, 2024 totaled \$3.6 million, or 0.16% of total assets, compared to \$1.8 million, or 0.08%, of total assets at December 31, 2023. We had no other real estate owned at September 30, 2024 and at December 31, 2023. We recorded net recoveries of \$63 thousand during the third quarter of 2024 compared to net recoveries of \$7 thousand for same period of 2023. For the nine months ended September 30, 2024 and 2023, we recorded net recoveries of \$98 thousand and net charge-offs of \$326 thousand, respectively.

See "Asset Quality" below for additional information on the credit quality of the loan portfolio.

Noninterest Income

The following table provides detail for noninterest income for the three and nine months ended September 30, 2024 and 2023.

Noninterest Income
For the Three and Nine Months Ended September 30, 2024 and 2023
(Dollars in thousands)

| | For the Three Months Ended September 30, | | | | For the Nine Months Ended September 30, | | | |
|---|--|---------------|------------------------|----------------|---|-------------------|------------------------|-----------------|
| | 2024 | 2023 | Change from Prior Year | | 2024 | 2023 | Change from Prior Year | |
| | | | Amount | Percent | | | Amount | Percent |
| Service charges on deposit accounts | \$ 301 | \$ 284 | \$ 17 | 6.0 % | \$ 841 | \$ 731 | \$ 110 | 15.0 % |
| Fees on loans | 54 | 107 | (53) | (49.5)% | 141 | 352 | (211) | (59.9)% |
| BOLI income | 70 | 373 | (303) | (81.2)% | 326 | 1,067 | (741) | (69.4)% |
| Income (loss) from minority membership interest | 278 | (650) | 928 | (142.8)% | 426 | (1,431) | 1,857 | (129.8)% |
| Loss on sale of available-for-sale securities | — | — | — | — % | — | (4,592) | 4,592 | (100.0)% |
| Other fee income | 112 | 111 | 1 | 0.9 % | 347 | 362 | (15) | (4.1)% |
| Total noninterest income (loss) | \$ 815 | \$ 225 | \$ 590 | 262.2 % | \$ 2,081 | \$ (3,511) | \$ 5,592 | (159.3)% |

Noninterest income includes service charges on deposits and loans, loan swap fee income, income from our membership interest in ACM and other investments, income from our BOLI policies, and other fee income, and continues to supplement our operating results. Non-interest income was \$815 thousand for the three months ended September 30, 2024 compared to \$225 thousand for same period of 2023. For the nine months ended September 30, 2024, we recorded noninterest income of \$2.1 million compared to a loss of \$3.5 million for same period of 2023.

We recorded income from our minority membership interest in ACM, totaling \$278 thousand and \$426 thousand for the three and nine months ended September 30, 2024, compared to a loss of \$650 thousand and a loss of \$1.4 million for the three and nine months ended September 30, 2023.

Fee income from loans was \$54 thousand for the three months ended September 30, 2024, compared to \$107 thousand for the same period of 2023, which included income from back-to-back loan swap transactions entered into during 2023. Service charges on deposits were \$301 thousand for the three months ended September 30, 2024, compared to \$284 thousand for the same period of 2023. Income from BOLI decreased to \$70 thousand for the three months ended September 30, 2024 as compared to \$373 thousand for the three months ended September 30, 2023, a result of surrendering our BOLI policies during the first quarter of 2024.

Fee income from loans was \$141 thousand for the nine months ended September 30, 2024, compared to \$352 thousand for the same period of 2023. Service charges on deposits were \$841 thousand for the nine months ended

September 30, 2024, compared to \$731 thousand for the same period of 2023, an increase of \$110 thousand, or 15%. Income from BOLI decreased to \$326 thousand for the nine months ended September 30, 2024 as compared to \$1.1 million for the nine months ended September 30, 2023, a result of surrendering our BOLI policies during the first quarter of 2024.

Noninterest Expense

The following table reflects the components of noninterest expense for the three and nine months ended September 30, 2024 and 2023.

Noninterest Expense

For the Three and Nine Months Ended September 30, 2024 and 2023

(Dollars in thousands)

| | For the Three Months Ended September 30, | | | | For the Nine Months Ended September 30, | | | |
|---|--|-----------------|------------------------|--------------|---|------------------|------------------------|--------------|
| | 2024 | 2023 | Change from Prior Year | | 2024 | 2023 | Change from Prior Year | |
| | | | Amount | Percent | | | Amount | Percent |
| Salaries and employee benefits | \$ 4,852 | \$ 5,267 | \$ (415) | (7.9)% | \$ 14,073 | \$ 15,374 | \$ (1,301) | (8.5)% |
| Occupancy expense | 465 | 547 | (82) | (15.0)% | 1,502 | 1,785 | (283) | (15.9)% |
| Internet banking and software expense | 706 | 660 | 46 | 7.0 % | 2,130 | 1,804 | 326 | 18.1 % |
| Data processing and network administration | 727 | 601 | 126 | 21.0 % | 2,029 | 1,834 | 195 | 10.6 % |
| State franchise taxes | 589 | 584 | 5 | 0.9 % | 1,768 | 1,753 | 15 | 0.9 % |
| Audit, legal and consulting fees | 223 | 213 | 10 | 4.7 % | 694 | 644 | 50 | 7.8 % |
| Loan related expenses | 241 | (189) | 430 | (227.5)% | 686 | 199 | 487 | 244.7 % |
| FDIC insurance | 360 | 431 | (71) | (16.5)% | 1,081 | 968 | 113 | 11.7 % |
| Marketing, business development and advertising | 281 | 167 | 114 | 68.3 % | 747 | 527 | 220 | 41.7 % |
| Director fees | 150 | 180 | (30) | (16.7)% | 465 | 540 | (75) | (13.9)% |
| Postage, courier and telephone | 16 | 39 | (23) | (59.0)% | 46 | 134 | (88) | (65.7)% |
| Core deposit intangible amortization | 40 | 50 | (10) | (20.0)% | 127 | 157 | (30) | (19.1)% |
| Tax credit amortization | — | 32 | (32) | (100.0)% | — | 95 | (95) | (100.0)% |
| Other operating expenses | 545 | 466 | 79 | 17.0 % | 1,595 | 1,447 | 148 | 10.2 % |
| Total noninterest expense | <u>\$ 9,195</u> | <u>\$ 9,048</u> | <u>\$ 421</u> | <u>4.7 %</u> | <u>\$ 26,816</u> | <u>\$ 27,261</u> | <u>\$ 468</u> | <u>1.7 %</u> |

Noninterest expense includes, among other things, salaries and benefits, occupancy and equipment costs, professional fees, data processing, insurance and miscellaneous expenses. Noninterest expense was \$9.2 million and \$9.0 million for the three months ended September 30, 2024 and 2023, respectively.

Salaries and benefits expense decreased \$415 thousand to \$4.9 million for the three months ended September 30, 2024 compared to \$5.3 million for the same period in 2023, a result of reduced staffing through process improvement resulting from the use of improved technologies. Occupancy expense decreased by \$82 thousand, primarily as a result of the office space reduction efforts that were completed during the fourth quarter of 2023. These decreases were partially offset by an increase in internet banking and software expense of \$46 thousand for the three months ended September 30, 2024 to \$706 thousand, as compared to \$660 thousand for the same period in 2023, a result of the implementation of enhanced customer software solutions. In addition, loan related expenses increased \$430 thousand for the three months ended September 30, 2024 compared to the same period in 2023, a result of recovered loan legal expenses recorded during 2023.

Noninterest expense was \$26.8 million and \$27.3 million for the nine months ended September 30, 2024 and 2023, respectively. Salaries and benefits expense decreased \$1.3 million to \$14.1 million for the nine months ended September 30, 2024 compared to \$15.4 million for the same period in 2023, which was primarily related to reduced staffing for the nine months ended September 30, 2024 compared to the same period of 2023. Occupancy expense

decreased by \$283 thousand for the nine months ended September 30, 2024 as compared to the same period of 2023, which was primarily related to the office space reduction initiatives that were completed during the fourth quarter of 2023. These decreases were partially offset by an increase in internet banking and software expense of \$326 thousand for the nine months ended September 30, 2024 to \$2.1 million, compared to \$1.8 million for the same period in 2023, a result of the implementation of enhanced customer software solutions during 2023.

Income Taxes

We recorded a provision for income tax expense of \$1.4 million and \$1.2 million for the three months ended September 30, 2024 and 2023, respectively. The effective tax rate for the three months ended September 30, 2024 and 2023 was 22.6% and 22.9%, respectively.

For the nine months ended September 30, 2024 and 2023, the provision for income taxes was \$5.8 million and \$1.9 million, respectively. The provision for income taxes for the nine months ended September 30, 2024 includes \$2.4 million in taxes and penalties related to the surrender of our BOLI policies. The provision for income taxes for the nine months ended September 30, 2023 was reduced as a result of the losses recorded on the sale of investment securities available-for-sale during 2023.

Discussion and Analysis of Financial Condition

Overview

At September 30, 2024, total assets were \$2.29 billion, an increase of 5%, or \$102.7 million, from \$2.19 billion at December 31, 2023. Investment securities were \$165.3 million at September 30, 2024, a decrease of \$6.6 million, from \$171.9 million at December 31, 2023. Total deposits increased 6%, or \$115.5 million, to \$1.96 billion at September 30, 2024, from \$1.85 billion at December 31, 2023. From time to time, we may utilize other funding sources such as federal funds purchased and FHLB advances as an additional funding source for the Bank. We had no federal funds purchased at September 30, 2024 and December 31, 2023. The Bank had FHLB advances outstanding of \$50.0 million and \$85.0 million at September 30, 2024 and December 31, 2023, respectively. Subordinated debt, net of unamortized issuance costs, totaled \$19.7 million and \$19.6 million at September 30, 2024 and December 31, 2023.

Loans Receivable, Net

Loans receivable, net of deferred fees, were \$1.87 billion at September 30, 2024 and \$1.83 billion at December 31, 2023, an increase of \$46.4 million, or 3%. During the third quarter of 2024, loan originations totaled \$58.7 million with a weighted average rate of 9.27%, and were primarily comprised of commercial and industrial loans. Loan renewals totaled \$60.4 million with a weighted average rate of 8.94%. Loans that paid off during the third quarter of 2024 totaled \$51.6 million with a weighted average rate of 7.52%.

Commercial real estate loans totaled \$1.06 billion and \$1.09 billion at September 30, 2024 and December 31, 2023, and were approximately 57% and 60% of the total loans receivable at such dates, respectively. Owner-occupied commercial real estate loans were \$196.3 million at September 30, 2024 compared to \$212.9 million at December 31, 2023. Nonowner-occupied commercial real estate loans were \$866.7 million at September 30, 2024 compared to \$878.7 million at December 31, 2023. Commercial construction loans totaled \$173.8 million at September 30, 2024, compared to \$148.0 million at December 31, 2023 and comprised of 9% and 8% of total loans receivable at such dates, respectively. Our regulatory commercial real estate concentration (which includes nonowner-occupied real estate and construction loans) was 385% of our total risk-based capital at September 30, 2024. Our commercial real estate portfolio, including construction loans, is diversified by asset type and geographic concentration. We manage this portion of our portfolio in a disciplined manner. We have comprehensive policies to monitor, measure, and mitigate our loan concentrations within this portfolio segment, including rigorous credit approval, monitoring and administrative practices. Additional information on the stratification of these portfolio segments can be found below under "Asset Quality".

The following table presents the composition of our loans receivable portfolio at September 30, 2024 and December 31, 2023.

Loans Receivable

At September 30, 2024 and December 31, 2023

(Dollars in thousands)

| | September 30, 2024 | December 31, 2023 |
|--------------------------------------|---------------------|---------------------|
| Commercial real estate | \$ 1,062,978 | \$ 1,091,633 |
| Commercial and industrial | 299,598 | 219,873 |
| Commercial construction | 173,806 | 147,998 |
| Consumer real estate | 331,713 | 363,317 |
| Consumer nonresidential | 6,851 | 5,743 |
| Total loans, net of fees | 1,874,946 | 1,828,564 |
| Less: | | |
| Allowance for credit losses on loans | 19,067 | 18,871 |
| Loans receivable, net | \$ 1,855,879 | \$ 1,809,693 |

Asset Quality

Nonperforming loans, defined as nonaccrual loans and loans contractually past due 90 days or more as to principal or interest and still accruing, were \$3.6 million and \$1.8 million at September 30, 2024 and December 31, 2023, respectively, an increase of \$1.8 million. Loans that we have classified as nonperforming are a result of customer specific deterioration, mostly financial in nature, that are not a result of economic, industry, or environmental causes that we might see as a pattern for possible future losses within our loan portfolio. For each of our criticized assets, we individually evaluate each loan, generally through the performance of a collateral analysis to determine the amount of allowance required. As a result of the analysis completed, we had specific reserves totaling \$802 thousand and \$676 thousand at September 30, 2024 and December 31, 2023, respectively. Our ratio of nonperforming loans to total assets was 0.16% and 0.08% at September 30, 2024 and December 31, 2023, respectively. We had no other real estate owned and there were no loan modifications for borrowers who were experiencing financial difficulty during the quarter ended September 30, 2024.

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. We analyze loans individually by classifying the loans as to credit risk. This analysis includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. At September 30, 2024, we had \$15.4 million in loans identified as special mention, an increase of \$9.2 million from December 31, 2023. Special mention rated loans have a potential weakness that deserves our close attention; however, the borrower continues to pay in accordance with their contractual terms, unless modified and disclosed. The increase from December 31, 2023 was driven by one loan that was downgraded to special mention during the second quarter of 2024. Loans rated as special mention are generally considered to be well-secured, and are not individually evaluated.

At September 30, 2024, we had \$3.2 million in loans identified as substandard, a decrease of \$19.4 million from December 31, 2023. Substandard rated loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. For each of these substandard loans, a liquidation analysis is completed. At September 30, 2024, specific reserves totaling \$802 thousand were allocated within the allowance for credit losses to supplement any shortfall of collateral.

At December 31, 2023, we downgraded an owner-occupied commercial real estate loan totaling \$19.9 million to substandard due to concerns regarding the financial condition of this borrower's parent company. During the third quarter ended September 30, 2024, the parent company closed on long term financing, strengthening its overall financial condition. As a result, we upgraded this loan to a pass rating.

We recorded annualized net recoveries to average loans receivable of (0.01)% for the nine months ended September 30, 2024, compared to annualized net charge-offs of 0.02% for the nine months ended September 30, 2023. For the nine months ended September 30, 2024, we have recorded net recoveries totaling \$98 thousand, compared to net charge-offs of \$326 thousand for the comparable nine month period of 2023. The following table provides additional information on our asset quality for the dates presented.

Nonperforming Loans and Assets

At September 30, 2024 and December 31, 2023

(Dollars in thousands)

| | September 30, 2024 | December 31, 2023 |
|---|--------------------|-------------------|
| Nonperforming assets: | | |
| Nonaccrual loans, gross | \$ 2,430 | \$ 1,689 |
| Loans contractually past-due 90 days or more and still accruing | 1,126 | 140 |
| Total nonperforming loans (NPLs) | \$ 3,556 | \$ 1,829 |
| Total nonperforming assets (NPAs) | \$ 3,556 | \$ 1,829 |
| NPLs/Total Assets | 0.16 % | 0.08 % |
| NPAs/Total Assets | 0.16 % | 0.08 % |
| Allowance for credit losses on loans/NPLs | 536.19 % | 1,031.77 % |

We are closely and proactively monitoring the effects of recent market activity. As mentioned above, our commercial real estate loan portfolio totaled \$1.06 billion, or 57% of total loans, at September 30, 2024 and \$1.09 billion, or 60% of total loans, at December 31, 2023. The commercial real estate portfolio, including construction loans, is diversified by asset type and geographic concentration. We manage this portion of the portfolio in a disciplined manner, and have comprehensive policies to monitor, measure and mitigate our loan concentrations within this portfolio segment, including rigorous credit approval, monitoring and administrative practices. Included in commercial real estate are loans secured by office buildings totaling \$137.4 million, or 7% of total loans, and retail shopping centers totaling \$260.7 million, or 14% of total loans, at September 30, 2024. Loans secured by multi-family commercial properties totaled \$164.6 million, or 9% of total loans, at September 30, 2024.

The following table provides further stratification of these and additional classes of commercial real estate and construction loans at September 30, 2024 (dollars in thousands).

| Owner Occupied Commercial Real Estate | | | | Non-Owner Occupied Commercial Real Estate | | | | Construction | | Total CRE | |
|--|---------------------------------|--------------------------|--------------------------------|---|--------------------------|-----------------------------|---|--------------------------|-----------------------------|--------------------------------------|---------------------|
| Asset Class | Average Loan-to-Value (1) | Number of Total Loans | Bank Owned Principal (2) | Average Loan-to-Value (1) | Number of Total Loans | Bank Owned Principal (2) | Top 3 Geographic Concentration | Number of Total Loans | Bank Owned Principal (2) | Total Bank Owned Principal (2) | % of Total Loans |
| Office, Class A | 68% | 6 | \$7,426 | 46% | 4 | \$3,688 | Counties of Fairfax and Loudoun, Virginia and Montgomery County, Maryland | — | \$— | \$11,114 | 7% |
| Office, Class B | 49% | 30 | 10,795 | 45% | 28 | 56,782 | | — | — | 67,577 | |
| Office, Class C | 53% | 8 | 5,095 | 38% | 8 | 1,871 | | 1 | 865 | 7,831 | |
| Office, Medical | 38% | 7 | 1,121 | 46% | 7 | 41,312 | | 1 | 8,426 | 50,859 | |
| Subtotal | | 51 | \$24,437 | | 47 | \$103,653 | | 2 | \$9,291 | \$137,381 | |
| Retail- Neighborhood/Community Shop | | — | \$— | 43% | 30 | \$81,172 | Prince George's County, Maryland, Baltimore County, MD, Fairfax County, VA | 2 | \$11,358 | 92,530 | 14% |
| Retail- Restaurant | 56% | 8 | 7,113 | 44% | 16 | 26,137 | | — | — | 33,250 | |
| Retail- Single Tenant | 58% | 5 | 1,942 | 42% | 20 | 36,155 | | — | — | 38,097 | |
| Retail- Anchored, Other | | 0 | — | 51% | 13 | 42,736 | | — | — | 42,736 | |
| Retail- Grocery-anchored | | — | — | 46% | 8 | 52,819 | | 1 | 1,238 | 54,057 | |
| Subtotal | | 13 | \$9,055 | | 87 | \$239,019 | | 3 | \$12,596 | \$260,670 | |
| Multi-family, Class A (Market) | | — | \$— | | 1 | \$— | Washington, D.C., Baltimore City, Maryland and Richmond City, Virginia | 1 | \$1,044 | \$1,044 | 9% |
| Multi-family, Class B (Market) | | — | — | 63% | 20 | 69,252 | | — | — | 69,252 | |
| Multi-family, Class C (Market) | | — | — | 55% | 56 | 66,939 | | 2 | 7,047 | 73,986 | |
| Multi-Family-Affordable Housing | | — | — | 52% | 10 | 16,277 | | 1 | 4,013 | 20,290 | |
| Subtotal | | — | \$— | | 87 | \$152,468 | | 4 | \$12,104 | \$164,572 | |
| Industrial | 50% | 41 | \$66,732 | 47% | 38 | \$124,694 | Prince William County, Virginia, Fairfax County, Virginia and Howard County, Maryland | 1 | \$1,411 | \$192,837 | 16% |
| Warehouse | 54% | 13 | 17,704 | 27% | 8 | 9,327 | | — | — | 27,031 | |
| Flex | 50% | 14 | 15,499 | 54% | 14 | 56,144 | | 2 | — | 71,643 | |
| Subtotal | | 68 | \$99,935 | | 60 | \$190,165 | | 3 | \$1,411 | \$291,511 | |
| Hotels | | — | \$— | 42% | 9 | \$55,177 | | 1 | \$7,315 | \$62,492 | 3% |
| Mixed Use | 45% | 10 | 5,839 | 60% | 36 | 65,773 | | — | — | 71,612 | 4% |
| Land | | | \$ — | | | \$ — | | 26 | \$ 55,588 | \$55,588 | 3% |
| 1- 4 family construction | | | \$ — | | | \$ — | | 17 | 50,274 | 50,274 | 3% |
| Other (including net deferred fees) | | | \$57,003 | | | \$60,454 | | | \$25,227 | 142,684 | 8% |
| Total commercial real estate and construction loans, net of fees, at September 30, 2024 | | | | | | \$ 196,269 | | | \$ 173,806 | \$ 1,236,784 | 66% |
| Total commercial real estate and construction loans, net of fees, at December 31, 2023 | | | | | | \$ 212,889 | | | \$ 147,998 | \$ 1,239,631 | 68% |

(1). Loan-to-value is based on collateral valuation at origination date against current bank owned principal.

(2). Minimum debt service coverage policy is 1.30x for owner occupied and 1.25x for non-owner occupied at origination.

The loans shown in the above table exhibit strong credit quality, reflecting two classified loans at September 30, 2024 totaling \$1.6 million. During our assessment of the allowance for credit losses on loans, we addressed the credit risks associated with these portfolio segments and believe that as a result of our conservative underwriting discipline at loan origination and our ongoing loan monitoring procedures, we have appropriately reserved for possible credit concerns in the event of a downturn in economic activity.

At September 30, 2024 and December 31, 2023, there were no performing loans considered potential problem loans. Potential problem loans are defined as loans that are not included in the 90 days or more past due, nonaccrual or restructured categories, but for which known information about possible credit problems causes us to be uncertain as to the ability of the borrowers to comply with the present loan repayment terms which may in the future result in disclosure in the past due, nonaccrual or restructured loan categories. We take a conservative approach with respect to risk rating loans in our portfolio. Based upon the status as a potential problem loan, these loans receive heightened scrutiny and ongoing

intensive risk management. Additionally, our allowance for credit losses on loans estimation methodology adjusts expected losses to calibrate the likelihood of a default event to occur through the use of risk ratings.

Unexpected changes in economic growth could adversely affect our loan portfolio, including causing increases in delinquencies and default rates, which would adversely impact our charge-offs, allowance for credit losses, and provision for credit losses. Deterioration in real estate values, employment data and household incomes may also result in higher credit losses for us. Also, in the ordinary course of business, we may be subject to a concentration of credit risk to a particular industry, counterparty, borrower or issuer. A deterioration in the financial condition or prospects of a particular industry or a failure or downgrade of, or default by, any particular entity or group of entities could negatively impact our business, perhaps materially, and the systems by which we set limits and monitor the level of our credit exposure to individual entities and industries, may not function as we have anticipated.

See "Critical Accounting Policies" above for more information on our allowance for credit losses methodology.

The following tables present additional information pertaining to the activity in and allocation of the allowance for credit losses on loans by loan type and the percentage of the loan type to the total loan portfolio for the periods and at the dates presented. The allocation of the allowance for credit losses on loans to a category of loans is not necessarily indicative of future losses or charge-offs, and does not restrict the use of the allowance to any specific category of loans.

Allowance for Credit Losses on Loans

For the Three and Nine Months Ended September 30, 2024 and 2023

(Dollars in thousands)

For the Three Months Ended September 30,

| | 2024 | | 2023 | |
|---|---------------------------------|--|---------------------------------|--|
| | Net (charge-offs) recoveries | Percentage of net charge-offs to average loans outstanding during the year | Net (charge-offs) recoveries | Percentage of net charge-offs to average loans outstanding during the year |
| Consumer nonresidential | \$ 63 | 0.01 % | \$ 7 | 0.08 % |
| Total | \$ 63 | 0.01 % | \$ 7 | 0.08 % |
| Average loans outstanding during the period | \$ 1,879,152 | | \$ 1,868,819 | |

For the Nine Months Ended September 30,

| | 2024 | | 2023 | |
|---|---------------------------------|--|---------------------------------|--|
| | Net (charge-offs) recoveries | Percentage of net charge-offs to average loans outstanding during the year | Net (charge-offs) recoveries | Percentage of net charge-offs to average loans outstanding during the year |
| Commercial and industrial | \$ — | — % | \$ (347) | (0.02) % |
| Consumer residential | — | — % | 1 | — % |
| Consumer nonresidential | 98 | 0.01 % | 20 | — % |
| Total | \$ 98 | 0.01 % | \$ (326) | (0.02) % |
| Average loans outstanding during the period | \$ 1,867,503 | | \$ 1,856,008 | |

September 30,

| | 2024 | 2023 |
|--|--------|--------|
| Allowance for credit losses on loans receivable, net of fees | 1.02 % | 1.02 % |

Allocation of the Allowance for Credit Losses on Loans

At September 30, 2024 and December 31, 2023

(Dollars in thousands)

| | September 30, 2024 | | December 31, 2023 | |
|-----------------------------------|--------------------|-------------|-------------------|-------------|
| | Allocation | % of Total* | Allocation | % of Total* |
| Commercial real estate | \$ 9,769 | 51.24 % | \$ 10,174 | 59.88 % |
| Commercial and industrial | 3,656 | 19.17 % | 3,385 | 12.07 % |
| Commercial construction | 1,684 | 8.83 % | 1,425 | 8.13 % |
| Consumer residential | 3,890 | 20.40 % | 3,822 | 19.61 % |
| Consumer nonresidential | 68 | 0.36 % | 65 | 0.31 % |
| Total allowance for credit losses | \$ 19,067 | 100.00 % | \$ 18,871 | 100.00 % |

* Percentage of loan type to the total loan portfolio.

Investment Securities

Our investment securities portfolio is used as a source of income and liquidity. The investment portfolio consists of investment securities available-for-sale and investment securities held-to-maturity. Investment securities available-for-sale are those securities that we intend to hold for an indefinite period of time, but not necessarily until maturity. These securities are carried at fair value and may be sold as part of an asset/liability strategy, liquidity management or regulatory capital management. Investment securities held-to-maturity at September 30, 2024 and December 31, 2023 totaled \$265 thousand and \$264 thousand, respectively, and are those securities that we have the intent and ability to hold to maturity and are carried at amortized cost. The fair value of our investment securities available-for-sale was \$165.0 million at September 30, 2024, a decrease of \$6.6 million, or 4%, from \$171.6 million at December 31, 2023, primarily due to principal repayments and maturities of \$11.2 million, offset by an increase in the market value of the investment securities portfolio totaling \$4.6 million at September 30, 2024.

As of September 30, 2024 and December 31, 2023, the majority of the investment securities portfolio consisted of securities rated AAA by a leading rating agency. Investment securities which carry a AAA rating are judged to be of the best quality and carry the smallest degree of investment risk. All of our mortgage-backed securities are guaranteed by either the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association. The effective duration of the investment securities portfolio continues to be slightly over five years, which is within the industry average. Investment securities that were pledged to secure public deposits totaled \$45.2 million and \$7.2 million at September 30, 2024 and December 31, 2023, respectively. Investment securities that were pledged to secure Federal Reserve Bank of Richmond ("FRB") borrowings totaled \$6.3 million at September 30, 2024 and none at December 31, 2023.

In accordance with ASC 326, we complete periodic assessments on at least a quarterly basis to determine if credit deterioration exists within our investment securities portfolio and if an allowance for credit losses would be required as of a valuation date. For additional details related to management's assessment process, see the "Critical Accounting Policies" section above. As a result of the assessment performed as of September 30, 2024, the investment securities with unrealized losses are a result of pricing changes due to recent rising interest rate conditions in the current market environment and not as a result of credit deterioration. Contractual cash flows for agency-backed portfolios are guaranteed and funded by the U.S. government. Municipal securities have third party protective elements and there are no negative indications that the contractual cash flows will not be received when due. We do not intend to sell nor do we believe we will be required to sell any of our investment securities portfolio prior to the recovery of the amortized cost as of the valuation date. As such, no allowance was recognized for our investment securities portfolio as of September 30, 2024.

We hold restricted investments in equities of the FRB and FHLB. At September 30, 2024, we owned \$4.1 million in FRB stock and \$4.0 million in FHLB stock. At December 31, 2023, we owned \$3.6 million in FRB stock and \$5.8 million in FHLB stock.

The following table presents the weighted average yields of our investment portfolio for each of the maturity ranges at September 30, 2024 and December 31, 2023.

Investment Securities by Stated Yields
At September 30, 2024 and December 31, 2023
(Dollars in thousands)

| | At September 30, 2024 | | | | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | Within One Year | One to Five Years | Five to Ten Years | Over Ten Years | Total |
| | Weighted Average Yield | Weighted Average Yield | Weighted Average Yield | Weighted Average Yield | Weighted Average Yield |
| | | | | | |
| Held-to-maturity | | | | | |
| Securities of state and local municipalities tax exempt | — % | 2.32 % | — % | — % | 2.32 % |
| Total held-to-maturity securities | — % | 2.32 % | — % | — % | 2.32 % |
| Available-for-sale | | | | | |
| Securities of U.S. government and federal agencies | — | 1.75 | 1.55 | — | 1.59 |
| Securities of state and local municipalities | 3.00 | — | — | 2.92 | 2.98 |
| Corporate bonds | — | 10.29 | 4.09 | — | 4.41 |
| Mortgaged-backed securities | — | 2.09 | 3.25 | 1.59 | 1.59 |
| Total available-for-sale securities | 3.00 % | 4.53 % | 3.30 % | 1.59 % | 1.88 % |
| Total investment securities | 3.00 % | 4.35 % | 3.30 % | 1.59 % | 1.88 % |

| | At December 31, 2023 | | | | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | Within One Year | One to Five Years | Five to Ten Years | Over Ten Years | Total |
| | Weighted Average Yield | Weighted Average Yield | Weighted Average Yield | Weighted Average Yield | Weighted Average Yield |
| | | | | | |
| Held-to-maturity | | | | | |
| Securities of state and local municipalities tax exempt | — % | 2.32 % | — % | — % | 2.32 % |
| Total held-to-maturity securities | — % | 2.32 % | — % | — % | 2.32 % |
| Available-for-sale | | | | | |
| Securities of U.S. government and federal agencies | — | — | 1.59 | — | 1.59 |
| Securities of state and local municipalities | 3.00 | — | — | 2.92 | 2.98 |
| Corporate bonds | — | 10.35 | 4.09 | — | 4.40 |
| Mortgaged-backed securities | — | 2.11 | 3.22 | 1.60 | 1.61 |
| Total available-for-sale securities | 3.00 % | 9.52 % | 3.23 % | 1.60 % | 1.89 % |
| Total investment securities | 3.00 % | 8.13 % | 3.23 % | 1.60 % | 1.89 % |

Deposits and Other Borrowed Funds

The following table sets forth the average balances of deposits and the percentage of each category to total average deposits for the nine months ended September 30, 2024 and 2023:

Average Deposit Balances

For the nine months ended September 30, 2024 and 2023

| (Dollars in thousands) | September 30, 2024 | | September 30, 2023 | |
|---|--------------------|------------------|--------------------|-------------------------------------|
| Non-interest-bearing demand | \$ | 372,289 | 20.53 % | \$ 433,335 22.32 % |
| Interest-bearing deposits | | | | |
| Interest checking | | 556,650 | 30.69 % | 564,765 29.10 % |
| Savings and money markets | | 332,663 | 18.34 % | 259,308 13.36 % |
| Certificate of deposits, \$100,000 to \$249,999 | | 79,605 | 4.39 % | 86,168 4.44 % |
| Certificate of deposits, \$250,000 or more | | 204,292 | 11.26 % | 265,594 13.68 % |
| Wholesale deposits | | 268,295 | 14.79 % | 332,217 17.11 % |
| Total | \$ | <u>1,813,794</u> | <u>100.00 %</u> | \$ <u>1,941,387</u> <u>100.00 %</u> |

Total deposits increased \$115.5 million, or 6%, to \$1.96 billion at September 30, 2024 from \$1.85 billion at December 31, 2023. Non-interest-bearing deposits were \$357.0 million at September 30, 2024, or 18% of total deposits. At September 30, 2024, core deposits, which exclude wholesale deposits, increased \$110.8 million from December 31, 2023, or 7%. Time deposits decreased \$59.8 million, or 20%, to \$246.5 million at September 30, 2024 from December 31, 2023, and were 14% of core deposits.

Wholesale deposits were \$249.9 million at September 30, 2024 compared to \$245.3 million at December 31, 2023, an increase of \$4.6 million, or 2%. Wholesale deposits are partially fixed at a weighted average rate of 3.40% as we have executed \$200.0 million in pay-fixed/receive-floating interest rate swaps to reduce funding costs. In addition, we are a member of the IntraFi Network ("IntraFi"), which gives us the ability to offer Certificates of Deposit Account Registry Service ("CDARS") and Insured Cash Sweep ("ICS") products to our customers who seek to maximize FDIC insurance protection. When a customer places a large deposit with us for IntraFi, funds are placed into certificates of deposit or other deposit products with other banks in the CDARS and ICS networks in increments of less than \$250 thousand so that principal and interest are eligible for FDIC insurance protection. These deposits are part of our core deposit base. At September 30, 2024 and December 31, 2023, we had \$238.1 million and \$254.1 million, respectively, in CDARS reciprocal and ICS reciprocal products.

As of September 30, 2024, the estimated amount of total uninsured deposits (excluding collateralized deposits) was \$790.0 million, or 40.3%, of total deposits. The estimate of uninsured deposits generally represents the portion of deposit accounts that exceed the FDIC insurance limit of \$250,000 and is calculated based on the same methodologies and assumptions used for purposes of the Bank's regulatory reporting requirements. When excluding collateralized deposits, our estimate of uninsured deposits decreases to \$633.7 million, or 32.3% of total deposits at September 30, 2024.

The following table reports maturities of the estimated amount of uninsured certificates of deposit at September 30, 2024.

Certificates of Deposit Greater than \$250,000

At September 30, 2024

(Dollars in thousands)

| | September 30, 2024 |
|---------------------------------------|--------------------|
| Three months or less | \$ 22,929 |
| Over three months through six months | 62,044 |
| Over six months through twelve months | 43,604 |
| Over twelve months | 22,746 |
| | <u>\$ 151,323</u> |

Other borrowed funds, which include federal funds purchased, FHLB advances and Bank Term Funding Program ("BTFP") borrowings, were \$57.0 million at September 30, 2024 compared to \$85.0 million at December 31, 2023, a decrease of \$28.0 million, or 33%. Subordinated debt, net of unamortized issuance costs, totaled \$19.7 million and \$19.6 million at September 30, 2024 and December 31, 2023, respectively. At September 30, 2024 and December 31, 2023, we did not have any federal funds purchased. During the first quarter of 2024, we borrowed \$7.0 million from the BTFP. We did not access this facility during 2023. FHLB advances totaled \$50.0 million and \$85.0 million, respectively. All of our FHLB advances have pay-fixed/receive-floating interest rate swaps to reduce our funding costs, and as such, the weighted average rate of these FHLB advances are 3.60% and 3.21% at September 30, 2024 and December 31, 2023, respectively.

Total wholesale funding (which includes wholesale deposits, BTFP, and FHLB advances) decreased \$23.4 million, or 7%, during 2024 to \$306.9 million from \$330.3 million at December 31, 2023.

Capital Resources

Capital adequacy is an important measure of financial stability and performance. Our objectives are to maintain a level of capitalization that is sufficient to sustain asset growth and promote depositor and investor confidence.

Regulatory agencies measure capital adequacy utilizing a formula that takes into account the individual risk profile of the financial institution. The minimum capital requirements for the Bank are: (i) a common equity Tier 1 ("CET1") capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total risk-based capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. Additionally, a capital conservation buffer requirement of 2.5% of risk-weighted assets is designed to absorb losses during periods of economic stress and is applicable to the Bank's CET1 capital, Tier 1 capital and total capital ratios. Including the conservation buffer, we currently consider the Bank's minimum capital ratios to be as follows: 7.00% for CET1; 8.50% for Tier 1 capital; and 10.50% for total capital. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the minimum plus the conservation buffer will face constraints on dividends, equity repurchases, and compensation.

Shareholders' equity at September 30, 2024 was \$230.8 million, an increase of \$13.7 million, compared to \$217.1 million at December 31, 2023. Net income for the nine month period ended September 30, 2024 contributed \$10.2 million to the increase in shareholders' equity. Accumulated other comprehensive loss decreased \$1.4 million during the nine month period ended September 30, 2024, which is primarily related to the improvement in the market value of our investment securities portfolio.

Total shareholders' equity to total assets for September 30, 2024 and December 31, 2023 was 10.1% and 9.9%, respectively. Tangible book value per share (a non-GAAP financial measure which is defined in the table below) at September 30, 2024 and December 31, 2023 was \$12.27 and \$11.77, respectively.

As noted above, regulatory capital levels for the Bank meets those established for "well capitalized" institutions. While we are currently considered "well capitalized," we may from time to time find it necessary to access the capital markets to meet our growth objectives or capitalize on specific business opportunities.

As the Company is a bank holding company with less than \$3.00 billion in assets, and which does not (i) conduct significant off-balance sheet activities, (ii) engage in significant non-banking activities, or (iii) have a material amount of

securities registered under the Securities Exchange Act of 1934 (the "Exchange Act"), it is not currently subject to risk-based capital requirements adopted by the Federal Reserve, pursuant to the small bank holding company policy statement. The Federal Reserve has not historically deemed a bank holding company ineligible for application of the small bank holding company policy statement solely because its common stock is registered under the Exchange Act. There can be no assurance that the Federal Reserve will continue this practice.

On January 1, 2020, the federal banking agencies adopted a "Community Bank Leverage Ratio" ("CBLR"), which is calculated by dividing tangible equity capital by average consolidated total assets. If a "qualified community bank," generally a depository institution or depository institution holding company with consolidated assets of less than \$10.00 billion, opts into the CBLR framework and has a leverage ratio that exceeds the CBLR threshold, which was initially set at 9%, then such bank will be considered to have met all generally applicable leverage and risk based capital requirements under Basel III, the capital ratio requirements for "well capitalized" status under Section 38 of the Federal Deposit Insurance Act, and any other leverage or capital requirements to which it is subject. A bank or holding company may be excluded from qualifying community bank status based on its risk profile, including consideration of its off-balance sheet exposures; trading assets and liabilities; total notional derivatives exposures; and such other facts as the appropriate federal banking agencies determine to be appropriate. At January 1, 2020, we qualified and adopted this simplified capital structure. Effective September 30, 2022, we opted out of the CBLR framework. A banking organization that opts out of the CBLR framework can subsequently opt back into the CBLR framework if it meets the criteria listed above. We believe that the Bank met all capital adequacy requirements to which it was subject as of September 30, 2024 and December 31, 2023.

The following tables shows the minimum capital requirements and our capital position at September 30, 2024 and December 31, 2023 for the Bank.

Bank Capital Components

At September 30, 2024 and December 31, 2023

(Dollars in thousands)

| | Actual | | Minimum Capital Requirement ⁽¹⁾ | | Minimum to be Well Capitalized Under Prompt Corrective Action | |
|------------------------------|------------|---------|--|---------|---|---------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| At September 30, 2024 | | | | | | |
| Total risk-based capital | \$ 272,929 | 14.52 % | \$ 197,312 ≥ | 10.50 % | \$ 187,916 ≥ | 10.00 % |
| Tier 1 risk-based capital | 253,352 | 13.48 % | 159,729 ≥ | 8.50 % | 150,333 ≥ | 8.00 % |
| Common equity tier 1 capital | 253,352 | 13.48 % | 131,542 ≥ | 7.00 % | 122,146 ≥ | 6.50 % |
| Leverage capital ratio | 253,352 | 11.49 % | 87,283 ≥ | 4.00 % | 109,104 ≥ | 5.00 % |
| At December 31, 2023 | | | | | | |
| Total risk-based capital | \$ 261,403 | 13.83 % | \$ 198,413 ≥ | 10.50 % | \$ 188,965 ≥ | 10.00 % |
| Tier 1 risk-based capital | 241,930 | 12.80 % | 160,620 ≥ | 8.50 % | 151,172 ≥ | 8.00 % |
| Common equity tier 1 capital | 241,930 | 12.80 % | 132,275 ≥ | 7.00 % | 122,827 ≥ | 6.50 % |
| Leverage capital ratio | 241,930 | 10.77 % | 89,842 ≥ | 4.00 % | 112,302 ≥ | 5.00 % |

Includes capital conservation buffer.

Reconciliation of Book Value (GAAP) to Tangible Book Value (non-GAAP)

At September 30, 2024 and December 31, 2023

(Dollars in thousands, except per share data)

| | 2024 | 2023 |
|--|-------------------|-------------------|
| Total stockholders' equity (GAAP) | \$ 230,830 | \$ 217,117 |
| Less: goodwill and intangibles, net | (7,457) | (7,585) |
| Tangible Common Equity (non-GAAP) | \$ 223,373 | \$ 209,532 |
| Book value per common share (GAAP) | \$ 12.68 | \$ 12.19 |
| Less: intangible book value per common share | (0.41) | (0.42) |
| Tangible book value per common share (non-GAAP) | \$ 12.27 | \$ 11.77 |

Liquidity

Liquidity in the banking industry is defined as the ability to meet the demand for funds of both depositors and borrowers. We must be able to meet these needs by obtaining funding from depositors or other lenders or by converting non-cash items into cash. The objective of our liquidity management program is to ensure that we always have sufficient resources to meet the demands of our depositors and borrowers. Stable core deposits and a strong capital position provide the base for our liquidity position. We believe we have demonstrated our ability to attract deposits because of our convenient branch locations, personal service, technology and pricing. As of September 30, 2024, estimated uninsured deposits (excluding collateralized deposits) for the Bank increased to 32.3% of total deposits from 31.1% at December 31, 2023.

In addition to deposits, we have access to the various wholesale funding markets. These markets include the brokered certificate of deposit market and the federal funds market. We are a member of the IntraFi Network, which allows banking customers to access FDIC insurance protection on deposits through the Bank which exceed FDIC insurance limits. As part of our membership with the IntraFi Network, we have one-way authority for both their CDARs and ICS products which provides the Bank the ability to access additional wholesale funding as needed. We also maintain secured lines of credit with the FRB and the FHLB for which we can borrow up to the allowable amount for the collateral pledged. Having diverse funding alternatives reduces our reliance on any one source for funding.

Liquid assets, which include cash and due from banks, federal funds sold and investment securities available for sale, totaled \$342.7 million at September 30, 2024, or 15% of total assets, an increase from \$232.1 million, or 11% of total assets, at December 31, 2023. At September 30, 2024 and December 31, 2023, \$45.2 million and \$7.2 million, respectively, in investment securities available for sale were pledged as collateral for municipal deposits and BTFP.

Cash flow from amortizing assets or maturing assets also provides funding to meet the needs of depositors and borrowers.

Secondary Liquidity Available and In Use

At September 30, 2024

(Dollars in thousands)

| | Liquidity in Use | Liquidity Availal |
|---|------------------|-------------------|
| FHLB secured borrowings ⁽¹⁾ | \$ 50 | \$ 4 |
| FRB discount window secured borrowings ⁽²⁾ | — | |
| BTFP ⁽³⁾ | 7 | |
| Unsecured federal fund purchase lines | — | |
| Total | \$ 57 | \$ 4 |

(1) The Bank has pledged a portion of the commercial real estate and residential loan portfolio to the FHLB to secure the line of credit. The Bank has obtain a letter of credit of \$80 million to secure public funds.

(2) The Bank has pledged a portion of the commercial and industrial loan portfolio to the FRB to secure the line of the credit.

(3) The Bank has pledged a portion of the securities portfolio to the FRB to secure the line of credit. The BTFP program ended in March 2024.

We have established a formal liquidity contingency plan which establishes a liquidity management team and provides guidelines for liquidity management. For our liquidity management program, we first determine our current liquidity position and then forecast liquidity based on anticipated changes in the balance sheet. In this forecast, we expect to maintain a liquidity cushion. We also stress test our liquidity position under several different stress scenarios, from moderate to severe. Guidelines for the forecasted liquidity cushion and for liquidity cushions for each stress scenario have been established. We believe that we have sufficient resources to meet our liquidity needs.

Liquidity is essential to our business. Our liquidity could be impaired by an inability to access the capital markets or by unforeseen outflows of cash, including deposits. This situation may arise due to circumstances that we may be unable to control, such as general market disruption, negative views about the financial services industry generally, or an operational problem that affects a third party or us. Our ability to borrow from other financial institutions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events. While we believe we have a healthy liquidity position and do not anticipate the loss of deposits of any of the significant deposit customers, any of the factors discussed above could materially impact our liquidity position in the future.

Financial Instruments with Off-Balance-Sheet Risk and Credit Risk

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Bank's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. We evaluate each customer's credit worthiness on a case-by-case basis and require collateral to support financial instruments when deemed necessary. The amount of collateral obtained upon extension of credit is based on our evaluation of the counterparty. Collateral held varies but may include deposits held by us, marketable securities, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates up to one year or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. These instruments represent obligations to extend credit or guarantee borrowings and are not recorded on the consolidated statements of financial condition. The rates and terms of these instruments are competitive with others in the market in which we do business.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may not be drawn upon to the total extent to which we have committed.

Standby letters of credit are conditional commitments we issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. We hold certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

With the exception of these off-balance sheet arrangements, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, changes in financial condition, revenue, expenses, capital expenditures, or capital resources, that is material to our business.

At September 30, 2024 and December 31, 2023, unused commitments to fund loans and lines of credit totaled \$226.5 million and \$252.5 million, respectively. Commercial and standby letters of credit totaled \$23.9 million at September 30, 2024 and \$26.0 million at December 31, 2023, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a - 15(e) under the Exchange Act). As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was carried out under the supervision and with the participation of the Company's management, including its chief executive officer and chief financial officer. Based on and as of the date of such evaluation, these officers concluded that the Company's disclosure controls and procedures were effective.

The Company also maintains a system of internal accounting controls that is designed to provide assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and are properly recorded. This system is continually reviewed and is augmented by written policies and procedures, the careful selection and training of qualified personnel, and an internal audit program to monitor its effectiveness. There were no changes in our internal controls over financial reporting that occurred during our last fiscal quarter that materially affected, or are likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION**Item 1. Legal Proceedings**

In the ordinary course of our operations, we become party to various legal proceedings. Currently, we are not party to any material legal proceedings, and no such proceedings are, to management's knowledge, threatened against us.

Item 1A. Risk Factors

There have been no material changes in the risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) On March 21, 2024, we publicly announced that the Board of Directors had renewed the share repurchase program (the "Repurchase Program") that was initiated in 2020. Under the renewed Repurchase Program, we may purchase up to 1,300,000 shares of our common stock, or approximately 8% of our outstanding shares of common stock at December 31, 2023. The Repurchase Program will expire on March 31, 2025, subject to earlier termination of the program by the Board of Directors.

No shares were purchased during the three months ended September 30, 2024.

Item 3. Defaults Upon Senior Securities

- (a) None.
- (b) None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

- (a) None.
- (b) None.
- (c) During the fiscal quarter ended September 30, 2024, none of the Company's directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408(a) of Regulation S-K).

Item 6. Exhibits

- 31.1 [Rule 13a-14\(a\) Certification of Principal Executive Officer](#)
- 31.2 [Rule 13a-14\(a\) Certification of Principal Financial Officer](#)
- 32.1 [Statement of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350](#)
- 32.2 [Statement of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350](#)
- 101 The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Changes in Stockholders' Equity, and (vi) related notes.
- 104 The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline Extensible Business Reporting Language (included with 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.

FVCBankcorp, Inc.

(Registrant)

Date: November 13, 2024

/s/ David W. Pijor

David W. Pijor

Chairman and Chief Executive Officer

(Principal Executive Officer)

Date: November 13, 2024

/s/ Jennifer L. Deacon

Jennifer L. Deacon

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION

I, David W. Pijor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FVCBankcorp, Inc. for the quarter ended September 30, 2024;
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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2024

/s/ David W. Pijor

David W. Pijor

Chairman and Chief Executive Officer

CERTIFICATION

I, Jennifer L. Deacon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FVCBankcorp, Inc. for the quarter ended September 30, 2024;
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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2024

/s/ Jennifer L. Deacon

Jennifer L. Deacon

Executive Vice President and Chief Financial Officer

**STATEMENT OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 (the "Form 10-Q") of FVCBankcorp, Inc., I, David W. Pijor, Chairman and Chief Executive Officer, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: November 13, 2024

/s/ David W. Pijor

David W. Pijor

Chairman and Chief Executive Officer

**STATEMENT OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 (the "Form 10-Q") of FVCBankcorp, Inc., I, Jennifer L. Deacon, Executive Vice President and Chief Financial Officer, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: November 13, 2024

/s/ Jennifer L. Deacon

Jennifer L. Deacon

Executive Vice President and Chief Financial Officer