UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2024

OR

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

For the transition period from to ___________ to ___________

Commission file number: 001-38817

MainStreet Bancshares, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Virginia **(State or Other Jurisdiction of Incorporation or Organization)**	**81-2871064** **(I.R.S. Employer Identification No.)**

10089 Fairfax Boulevard, Fairfax, VA 22030
(Address of Principal Executive Offices and Zip Code)

(703) 481-4567
(Registrant's Telephone Number, Including Area Code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MNSB	The Nasdaq Stock Market LLC
Depositary Shares (each representing a 1/40th interest in a share of 7.50% Series A Fixed-Rate Non-Cumulative Perpetual Preferred Stock)	MNSBP	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: As of August 8, 2024, there were 7,602,518 outstanding shares, par value $4.00 per share, of the issuer's common stock.

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PART I – FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements – Unaudited

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition as of June 30, 2024 and December 31, 2023 (Dollars in thousands, except share data)

	At June 30, 2024 (unaudited)	At December 31, 2023 (*)
Assets		
Cash and due from banks	$ 41,697	$ 53,581
Federal funds sold	49,762	60,932
Cash and cash equivalents	91,459	114,513
Investment securities available-for-sale, at fair value	57,605	59,928
Investment securities held-to-maturity, at amortized cost, net of allowance for credit losses of $ 0 and $0, respectively.	16,036	17,275
Restricted securities, at amortized cost	26,797	24,356
Loans, net of allowance for credit losses of $ 17,098 and $16,506, respectively	1,778,840	1,705,137
Premises and equipment, net	13,787	13,944
Accrued interest and other receivables	11,916	12,390
Bank owned life insurance	38,901	38,318
Computer software, net of amortization	17,205	14,657
Other assets	41,200	34,914
Total Assets	$ 2,093,746	$ 2,035,432
Liabilities and Stockholders' Equity		
Liabilities		
Non-interest bearing demand deposits	$ 314,636	$ 364,606
Interest bearing demand deposits	179,513	137,128
Savings and NOW deposits	60,867	45,878
Money market deposits	476,396	442,179
Time deposits	723,951	696,336
Total deposits	1,755,363	1,686,127
Federal funds purchased	—	15,000
Subordinated debt, net	72,841	72,642
Allowance for credit losses on off-balance sheet credit exposure	357	1,009
Other liabilities	40,470	39,137
Total Liabilities	1,869,031	1,813,915
Stockholders' Equity		
Preferred stock, $1.00 par value, 2,000,000 shares authorized; 28,750 shares issued and outstanding at June 30, 2024 and December 31, 2023	27,263	27,263
Common stock, $4.00 par value, 10,000,000 shares authorized; issued and outstanding 7,598,529 shares (including 235,786 nonvested shares) at June 30, 2024 and 7,527,415 shares (including 228,300 nonvested shares) at December 31, 2023	29,452	29,198
Capital surplus	66,392	65,985
Retained earnings	109,651	106,549
Accumulated other comprehensive loss	(8,043)	(7,478)
Total Stockholders' Equity	224,715	221,517
Total Liabilities and Stockholders' Equity	$ 2,093,746	$ 2,035,432

* Derived from audited consolidated financial statements.

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Income for the three and six months ended June 30, 2024 and 2023 (Dollars in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Interest Income				
Interest and fees on loans	$ 31,546	$ 28,855	$ 62,034	$ 55,586
Interest and dividends on investments securities				
Mortgage-backed securities	94	82	196	200
Tax-exempt obligations of states and political subdivisions	268	265	538	529
Taxable obligations of states and political subdivisions	64	64	128	128
Other	272	261	541	598
Interest on federal funds sold and interest-bearing deposits	1,083	1,179	2,264	2,311
Total Interest Income	33,327	30,706	65,701	59,352
Interest Expense				
Interest on interest bearing DDA deposits	2,172	251	4,032	594
Interest on savings and NOW deposits	190	147	347	255
Interest on money market deposits	5,638	2,926	10,816	4,129
Interest on time deposits	9,027	7,077	17,861	11,221
Interest on federal funds purchased	191	201	298	239
Interest on Federal Home Loan Bank advances	—	13	46	919
Interest on subordinated debt	820	820	1,640	1,632
Total Interest Expense	18,038	11,435	35,040	18,989
Net Interest Income	15,289	19,271	30,661	40,363
Provision For Credit Losses - Loans	931	617	1,095	1,032
(Recovery of) provision for Credit Losses - Off-Balance Sheet Credit Exposure	(293)	21	(652)	(111)
Net Interest Income After Provision For (Recovery of) Credit Losses	14,651	18,633	30,218	39,442
Non-Interest Income				
Deposit account service charges	490	535	959	1,125
Bank owned life insurance income	291	259	583	514
Net loss on securities called	(48)	—	(48)	—
Other fee income	140	16	270	174
Total Non-Interest Income	873	810	1,764	1,813
Non-Interest Expense				
Salaries and employee benefits	7,484	6,595	14,972	14,216
Furniture and equipment expenses	940	772	1,875	1,270
Advertising and marketing	566	698	1,020	1,495
Occupancy expenses	415	426	849	912
Outside services	839	504	1,614	994
Administrative expenses	229	211	471	426
Other operating expenses	2,195	1,646	4,190	3,242
Total Non-Interest Expense	12,668	10,852	24,991	22,555
Income Before Income Taxes	2,856	8,591	6,991	18,700
Income Tax Expense	238	1,645	1,068	3,602
Net Income	$ 2,618	$ 6,946	$ 5,923	$ 15,098
Preferred Stock Dividends	539	539	1,078	1,078
Net Income Available to Common Shareholders	$ 2,079	$ 6,407	$ 4,845	$ 14,020
Earnings Per Common Share:				
Basic	$ 0.27	$ 0.85	$ 0.64	$ 1.86
Diluted	$ 0.27	$ 0.85	$ 0.64	$ 1.86

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2024 and 2023 (Dollars in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Comprehensive Income, net of taxes				
Net Income	$ 2,618	$ 6,946	$ 5,923	$ 15,098
Other comprehensive income (loss), net of tax expense (benefit):				
Unrealized gain (loss) on available for sale securities arising during the period (net of tax expense (benefit), ($30) and ($204), respectively, for the three months ended June 30, and ($143) and $49, respectively for the six months ended June 30).	(113)	(684)	(565)	197
Add: reclassification adjustment for amortization of unrealized losses on securities transferred from available for sale to held to maturity (net of tax, $0 and $0, respectively, for the three months ended June 30, and $ 0 and $1, respectively, for the six months ended June 30).	—	2	—	3
Other comprehensive (loss) income	(113)	(682)	(565)	200
Comprehensive Income	$ 2,505	$ 6,264	$ 5,358	$ 15,298

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2024 and 2023 (Dollars in thousands)

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, March 31, 2024	$ 27,263	$ 29,514	$ 65,940	$ 108,334	$ (7,930)	$ 223,121
Vesting of restricted stock	—	13	(13)	—	—	—
Stock based compensation expense	—	—	690	—	—	690
Common stock repurchased	—	(75)	(225)	—	—	(300)
Dividends on preferred stock - ($0.47 per depositary share)	—	—	—	(539)	—	(539)
Dividends on common stock - ($0.10 per share)	—	—	—	(762)	—	(762)
Net income	—	—	—	2,618	—	2,618
Other comprehensive loss	—	—	—	—	(113)	(113)
Balance, June 30, 2024	$ 27,263	$ 29,452	$ 66,392	$ 109,651	$ (8,043)	$ 224,715

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2023	$ 27,263	$ 29,198	$ 65,985	$ 106,549	$ (7,478)	$ 221,517
Cumulative change in accounting principle (Note 1)	—	—	—	(217)	—	(217)
Vesting of restricted stock	—	421	(421)	—	—	—
Stock based compensation expense	—	—	1,380	—	—	1,380
Common stock repurchased	—	(167)	(552)	—	—	(719)
Dividends on preferred stock - ($0.94 per depositary share)	—	—	—	(1,078)	—	(1,078)
Dividends on common stock - ($0.20 per share)	—	—	—	(1,526)	—	(1,526)
Net income	—	—	—	5,923	—	5,923
Other comprehensive loss	—	—	—	—	(565)	(565)
Balance, June 30, 2024	$ 27,263	$ 29,452	$ 66,392	$ 109,651	$ (8,043)	$ 224,715

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, March 31, 2023	$ 27,263	$ 29,185	$ 64,213	$ 91,991	$ (7,664)	$ 204,988
Stock based compensation expense	—	—	590	—	—	590
Common stock repurchased	—	(8)	(35)	—	—	(43)
Dividends on preferred stock - ($0.47 per depositary share)	—	—	—	(539)	—	(539)
Dividends on common stock - ($0.10 per share)	—	—	—	(752)	—	(752)
Net income	—	—	—	6,946	—	6,946
Other comprehensive loss	—	—	—	—	(682)	(682)
Balance, June 30, 2023	$ 27,263	$ 29,177	$ 64,768	$ 97,646	$ (8,346)	$ 210,508

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2022	$ 27,263	$ 28,736	$ 63,999	$ 86,830	$ (8,546)	$ 198,282
Cumulative change in accounting principle (Note 1)	—	—	—	(1,699)	—	(1,699)
Vesting of restricted stock	—	449	(449)	—	—	—
Stock based compensation expense	—	—	1,253	—	—	1,253
Common stock repurchased	—	(8)	(35)	—	—	(43)
Dividends on preferred stock - ($0.94 per depositary share)	—	—	—	(1,078)	—	(1,078)
Dividends on common stock - ($0.20 per share)	—	—	—	(1,505)	—	(1,505)
Net income	—	—	—	15,098	—	15,098
Other comprehensive income	—	—	—	—	200	200
Balance, June 30, 2023	$ 27,263	$ 29,177	$ 64,768	$ 97,646	$ (8,346)	$ 210,508

See Notes to the Unaudited Consolidated Financial Statements

MAINSTREET BANCSHARES, INC. AND SUBSIDIARY

Unaudited Consolidated Statements of Cash Flows (Dollars in thousands)

For the six months ended June 30,	2024	2023
Cash Flows from Operating Activities		
Net income	$ 5,923	$ 15,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion, net	1,631	1,137
Amortization of right-of-use assets	249	142
Deferred income tax expense	922	289
Loss on securities called	48	—
Gain on disposal of premises and equipment	(25)	(39)
Provision for credit losses, net	443	921
Stock based compensation expense	1,380	1,253
Income from bank owned life insurance	(583)	(514)
Subordinated debt amortization expense	199	199
Loss on New Market Tax Credit investment operations	—	88
Change in:		
Accrued interest receivable and other receivables	474	(678)
Other assets	(7,177)	225
Other liabilities	1,333	(1,441)
Net cash provided by operating activities	4,817	16,680
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Payments	1,389	2,097
Calls	445	—
Purchases	(445)	—
Activity in held-to-maturity securities:		
Calls	1,200	—
Purchases of equity securities	(3,364)	(82)
Purchases of restricted investment in bank stock	(1,500)	(4,638)
Redemption of restricted investment in bank stock	1,425	8,389
Net increase in loan portfolio	(74,798)	(59,461)
Proceeds from sale of premises and equipment	121	39
Purchase of premises and equipment	(709)	(335)
Computer software developed	(2,548)	(3,117)
Net cash used in investing activities	(78,784)	(57,108)
Cash Flows from Financing Activities		
Net decrease in non-interest deposits	(49,970)	(161,697)
Net increase in interest bearing demand, savings, and time deposits	119,206	242,192
Net decrease in Federal Home Loan Bank advances	—	(100,000)
Net increase (decrease) in federal funds purchased	(15,000)	30,000
Cash dividends paid on preferred stock	(1,078)	(1,078)
Cash dividends paid on common stock	(1,526)	(1,505)
Repurchases of common stock	(719)	(43)
Net cash provided by financing activities	50,913	7,869
Increase in Cash and Cash Equivalents	(23,054)	(32,559)
Cash and Cash Equivalents, beginning of period	114,513	130,600
Cash and Cash Equivalents, end of period	$ 91,459	$ 98,041
Supplementary Disclosure of Cash Flow Information		
Cash paid during the period for interest	$ 34,398	$ 16,783
Cash paid during the period for income taxes	$ 1,250	$ 4,455
Net unrealized (loss) gain on securities available-for-sale	$ (708)	$ 246
Net cumulative change in accounting principle	$ (217)	$ (1,699)

See Notes to the Unaudited Consolidated Financial Statements

Note 1. Organization, Basis of Presentation and Impact of Recently Issued Accounting Pronouncements

Organization

MainStreet Bancshares, Inc. (the “Company”) is a financial holding company incorporated under the laws of the Commonwealth of Virginia whose primary activity is the ownership and management of MainStreet Bank (the “Bank”). On October 12, 2021, the Company filed an election with the Federal Reserve Board to be a financial holding company in order to engage in a broader range of financial activities than are permitted for bank holding companies generally. The Company is authorized to issue 15,000,000 shares of common stock with a par value of $ 4.00 per share. Additionally, the Company is authorized to issue 2,000,000 shares of preferred stock at a par value $ 1.00 per share. There are currently 28,750 shares of preferred stock outstanding. The Company is regulated under the Bank Holding Company Act of 1956, as amended (“BHC Act”) and is subject to inspection, examination, and supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve”).

On April 18, 2019, the Company completed the registration of its common stock with the Securities Exchange Commission (the “SEC”) through its filing of a General Form for Registration of Securities on Form 10 (“Form 10”), pursuant to Section 12(b) of the Securities Exchange Act of 1934. The Company is considered an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, or the “JOBS Act,” and as defined in Section 2(a) of the Securities Act of 1933, as amended, or the “Securities Act.” We are also a “smaller reporting company” as defined in Exchange Act Rule 12b-2. As such, we may elect to comply with certain reduced public company reporting requirements in future reports that we file with the SEC.

The Company was approved to list shares of our common stock on the Nasdaq Capital Market under our current symbol “MNSB” as of April 22, 2019. We were approved to list depositary shares of preferred stock on the Nasdaq Capital Market under the symbol “MNSBP” as of September 16, 2020. Each depositary share represents a 1/40th ownership interest in a share of 7.50% Series A Fixed-Rate Non-Cumulative Perpetual Preferred Stock.

The Bank is headquartered in Fairfax, Virginia where it also operates a branch. The Bank was incorporated on March 28, 2003, and received its charter from the Bureau of Financial Institutions of the Commonwealth of Virginia (the “Bureau”) on March 16, 2004. The Bank commenced regular operations on May 26, 2004, and is supervised by the Bureau and the Federal Reserve. The Bank is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. The Bank places special emphasis on serving the needs of retail customers, small and medium-sized businesses and professionals in the Washington, D.C. metropolitan area.

In September 2021, MainStreet Bancshares, Inc. established MainStreet Community Capital, LLC, a wholly owned subsidiary, to be a community development entity (“CDE”). This CDE will be an intermediary vehicle for the provision of loans and investments in Low-Income Communities (“LICs”). In January 2022, the Community Development Financial Institutions Fund (“CDFI”) of the United States Department of the Treasury certified MainStreet Community Capital, LLC as a registered CDE. MainStreet Community Capital's primary business objective will be to apply for and receive New Market Tax Credit ("NMTC") allocations that are awarded and distributed annually.

On October 25, 2021, MainStreet Bancshares, Inc. formally introduced Avenu, a division of MainStreet Bank. Avenu provides an embedded Banking as a Service (BaaS) solution that connects our partners (fintechs, application developers, money movers, and entrepreneurs) directly and seamlessly to our Software as a Service (SaaS) solution. Our SaaS software program expects to be deployed in 2024. Additional information can be found in our investor presentations filed quarterly.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) for interim information and with the instructions to the Quarterly Report on Form 10-Q, as applicable to a smaller reporting company. Accordingly, they do not include all the information and notes required by US GAAP for complete financial statements.

The financial statements are unaudited; but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation thereof. The balances as of December 31, 2023 have been derived from the audited consolidated financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto contained in the Form 10-K filed by the Company with the SEC on March 20, 2024. The results of operations for the three and six months ended June 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024, or any other period.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from the estimates.

The Company's critical accounting policies relate to (1) the allowance for credit losses on loans, (2) fair value of financial instruments, and (3) derivative financial instruments. These critical accounting policies require the use of estimates, assumptions and judgments which are based on information available as of the date of the financial statements. Accordingly, as this information changes, future financial statements could reflect the use of different estimates, assumptions, and judgments. Certain determinations inherently have a greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. In connection with the determination of the allowances for credit losses on loans management obtains independent appraisals for significant properties.

Recently Adopted Accounting Developments

FASB Accounting Standards Update No. 2023-02, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method ("ASU 2023-02")

On March 29, 2023, the FASB issued ASU 2023-02 which amends previous guidance to allow entities to account for qualifying tax equity investments using the proportional amortization method regardless of the program giving rise to the related income tax credits, as opposed to only being allowed to apply this method to qualifying tax equity investments in low-income housing tax credit structures as was the case under previous guidance. ASU 2023-02 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. On January 1, 2024, the Company adopted ASU 2023-02 using the modified retrospective approach, which did not have a material impact on the Company's financial statements. The Company transitioned from the equity method of accounting and began applying the proportional amortization method of accounting to its qualifying new markets tax credit investments in addition to its low income housing tax credit partnerships already subject to the proportional amortization method. The cumulative change in accounting principle was approximately $217,000.

Impact of Recently Issued Accounting Pronouncements

In July 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-03, "Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718)". This ASU amends the FASB Accounting Standards Codification for SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock. ASU 2023-03 is effective upon addition to the FASB Codification. The Company does not expect the adoption of ASU 2023-03 to have a material impact on its consolidated financial statements.

In October 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative". This ASU incorporates certain U.S. Securities and Exchange Commission (SEC) disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. The Company does not expect the adoption of ASU 2023-06 to have a material impact on its consolidated financial statements.

In December 2023, the Financial Accounting Standards Board (FASB) issued 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. Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

In March 2024, the Financial Accounting Standards Board (FASB) issued ASU 2024-02, “Codification Improvements – Amendments to Remove References to the Concepts Statements”. This ASU contains amendments to the Codification that remove references to various Concepts Statements. In most instances, the references are extraneous and not required to understand or apply the guidance. In other instances, the references were used in prior Statements to provide guidance in certain topical areas. This ASU is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied prospectively to all new transactions recognized on or after the date that the entity first applies the amendments or retrospectively to the beginning of the earliest comparative period presented in which the amendments were first applied. If an entity adopts the amendments retrospectively, it should adjust the opening balance of retained earnings as of the beginning of the earliest comparative period presented. The Company does not expect the adoption of ASU 2024-02 to have a material impact on its consolidated financial statements.

In March 2024, the Financial Accounting Standards Board (FASB) issued ASU 2024-01, “Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards”. This ASU provides an illustrative example intended to demonstrate how entities that account for profits interest and similar awards would determine whether a profits interest award should be accounted for in accordance with Topic 718. This ASU is effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. Early adoption is permitted. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the annual period that includes that interim period. Transition can be done either retrospectively or prospectively. The Company does not expect the adoption of ASU 2024-01 to have a material impact on its consolidated financial statements.

Note 2. Investment Securities

The following tables summarize the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at June 30, 2024 and December 31, 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss. The Company did not record an allowance for credit losses ("ACL") on its securities available-for-sale or held-to-maturity portfolio as of June 30, 2024 and December 31, 2023.

Investment securities available-for-sale was comprised of the following:

	June 30, 2024			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Collateralized Mortgage Backed	$ 22,412	$ —	$ (4,284)	$ 18,128
Subordinated Debt	9,470	—	(1,369)	8,101
Preferred Stock	445	—	—	445
Municipal Securities:				
Taxable	10,636	—	(2,384)	8,252
Tax-exempt	22,595	—	(2,392)	20,203
U.S. Governmental Agencies	2,492	8	(24)	2,476
Total	$ 68,050	$ 8	$ (10,453)	$ 57,605

Investment securities held-to-maturity was comprised of the following:

	June 30, 2024			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal Securities:				
Tax-exempt	$ 13,536	$ —	$ (226)	$ 13,310
Subordinated Debt	2,500	—	(20)	2,480
Total	$ 16,036	$ —	$ (246)	$ 15,790

Investment securities available-for-sale was comprised of the following:

	December 31, 2023			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized Mortgage Backed	$ 23,446	$ —	$ (3,931)	$ 19,515
Subordinated Debt	9,970	—	(1,503)	8,467
Municipal Securities:				
Taxable	10,649	—	(2,342)	8,307
Tax-exempt	22,668	23	(1,949)	20,742
U.S. Governmental Agencies	2,932	3	(38)	2,897
Total	$ 69,665	$ 26	$ (9,763)	$ 59,928

Investment securities held-to-maturity was comprised of the following:

	December 31, 2023			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal Securities:				
Tax-exempt	$ 14,775	$ 19	$ (121)	$ 14,673
Subordinated Debt	2,500	—	(10)	2,490
Total	$ 17,275	$ 19	$ (131)	$ 17,163

Credit Quality Indicators and Allowance for Credit Losses - HTM

For HTM securities, the Company evaluates the credit risk of its securities on at least a quarterly basis. The Company estimates expected credit losses on HTM debt securities on an individual basis using security-level credit ratings. The Company's HTM securities ACL was immaterial at June 30, 2024 and December 31, 2023. The primary indicators of credit quality for the Company's HTM portfolio are security type and credit rating, which is influenced by a number of factors including obligor cash flow, geography, seniority, and others. The majority of the Company's HTM securities with credit risk are obligations of states and political subdivisions.

The following table presents the amortized cost of HTM securities as of June 30, 2024 and December 31, 2023 by security type and credit rating:

(Dollars in thousands)	Municipal Securities	Subordinated Debt	Total HTM securities
June 30, 2024			
Credit Rating:			
AAA/AA/A	$ 13,536	$ —	$ 13,536
Not Rated - Non Agency	—	2,500	2,500
Total	$ 13,536	$ 2,500	$ 16,036
December 31, 2023			
Credit Rating:			
AAA/AA/A	$ 14,775	$ —	$ 14,775
Not Rated - Non Agency	—	2,500	2,500
Total	$ 14,775	$ 2,500	$ 17,275

As of June 30, 2024 and December 31, 2023, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as nonaccrual as of June 30, 2024 and December 31, 2023.

The scheduled maturities of securities available-for-sale and held-to-maturity at June 30, 2024 were as follows:

	June 30, 2024			
	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —	$ 689	$ 683
Due from one to five years	1,000	978	3,518	3,470
Due from after five to ten years	13,427	11,697	5,448	5,335
Due after ten years	53,623	44,930	6,381	6,302
Total	$ 68,050	$ 57,605	$ 16,036	$ 15,790

The scheduled maturities of securities available-for-sale and held-to-maturity at December 31, 2023 were as follows:

	December 31, 2023			
	Available-for-Sale		Held-to-Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —	$ 318	$ 315
Due from one to five years	1,000	976	3,325	3,314
Due from after five to ten years	14,054	12,222	7,218	7,188
Due after ten years	54,611	46,730	6,414	6,346
Total	$ 69,665	$ 59,928	$ 17,275	$ 17,163

Securities with a fair value of $390,000 and $16.1 million were pledged at June 30, 2024 and December 31, 2023, respectively. As the Federal Reserve Bank ended its Bank Term Funding Program, the Company no longer continued to pledge eligible securities. The Company did not need to utilize this program as it's liquidity position remains strong.

The following tables summarize the unrealized loss positions of securities available-for-sale as of June 30, 2024 and December 31, 2023:

	June 30, 2024					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
Collateralized Mortgage Backed	$ —	$ —	$ 18,034	$ (4,284)	$ 18,034	$ (4,284)
Subordinated Debt	—	—	7,350	(1,369)	7,350	(1,369)
Municipal securities:						
Taxable	—	—	8,253	(2,384)	8,253	(2,384)
Tax-exempt	2,384	(46)	16,945	(2,346)	19,329	(2,392)
U.S Governmental Agencies	—	—	656	(24)	656	(24)
Total	$ 2,384	$ (46)	$ 51,238	$ (10,407)	$ 53,622	$ (10,453)

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
Collateralized Mortgage Backed	$ —	$ —	$ 19,440	$ (3,931)	$ 19,440	$ (3,931)
Subordinated Debt	—	—	7,717	(1,503)	7,717	(1,503)
Municipal Securities:						
Taxable	—	—	8,307	(2,342)	8,307	(2,342)
Tax-exempt	1,986	(34)	16,510	(1,915)	18,496	(1,949)
U.S Government Agencies	1,515	(1)	845	(37)	2,360	(38)
Total	$ 3,501	$ (35)	$ 52,819	$ (9,728)	$ 56,320	$ (9,763)

Unrealized losses on each of the major categories of securities have not been recognized into income because all the securities are of high credit quality (rated A or higher, if rated). Management does not intend to sell and it is unlikely management will be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the securities. The fair value is expected to recover as the securities approach maturity. The following description provides the number of investment positions in an unrealized loss position and approximate duration of that loss position.

At June 30, 2024, there were twenty-two collateralized mortgage backed securities with fair values totaling $ 18.0 million in an unrealized loss position of more than 12 months. At June 30, 2024, there were twenty subordinated debt securities totaling $7.4 million in an unrealized loss position of more than 12 months. At June 30, 2024, five tax-exempt municipal securities with fair values totaling approximately $ 2.4 million were in an unrealized loss position of less than 12 months and twenty-eight securities with fair values totaling $ 16.9 million in an unrealized loss position of more than 12 months. At June 30, 2024, there were eleven taxable municipal securities with fair values totaling $ 8.3 million in an unrealized loss position of more than 12 months. At June 30, 2024, there were six government agency securities with a fair value of approximately $ 656,000 in an unrealized loss position of more than 12 months.

Certain municipal securities originally purchased as available for sale were transferred to held to maturity during 2013. The unrealized loss on the securities transferred to held to maturity was amortized over the life of the securities, which ended on December 31, 2023.

The Company periodically invests in New Market Tax Credit opportunities, related primarily to certain community development projects. The Company receives tax credits related to these investments, for which the Company typically acts as a limited partner and therefore does not exert control over the operating or financial policies of the partnerships. These tax credits are subject to recapture by taxing authorities based on compliance features required to be met at the project level. On January 1, 2024, the Company transitioned from the equity method of accounting and began applying the proportional amortization method of accounting to its qualifying new markets tax credit investments in addition to its low income housing tax credit partnerships already subject to the proportional amortization method.

Note 3. Loans Receivable

Loans receivable were comprised of the following:

(Dollars in thousands)	**June 30, 2024**	**December 31, 2023**
Residential Real Estate:		
Single family	$ 210,153	$ 203,417
Multifamily	239,227	271,040
Farmland	320	145
Commercial Real Estate:		
Owner-occupied	336,435	282,052
Non-owner occupied	508,595	461,775
Construction and Land Development	410,698	429,637
Commercial – Non Real Estate:		
Commercial & Industrial	93,559	75,415
Consumer – Non Real Estate:		
Unsecured	326	271
Secured	1,906	3,339
Total Gross Loans	1,801,219	1,727,091
Less: unearned fees, net	(5,281)	(5,448)
Less: allowance for credit losses - loans	(17,098)	(16,506)
Net Loans	$ 1,778,840	$ 1,705,137

The unsecured consumer loans above include $326,000 and $271,000 of overdrafts reclassified as loans at June 30, 2024 and December 31, 2023, respectively.

The following tables present the amortized cost basis by segments of the loan portfolio summarized by aging categories as of June 30, 2024 and December 31, 2023:

	June 30, 2024					
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due and Still Accruing	Nonaccrual	Current	Total Loans Receivable
Residential Real Estate:						
Single family	$ 2,719	$ —	$ —	$ 1,779	$ 205,655	$ 210,153
Multifamily	—	—	—	—	239,227	239,227
Farmland	—	—	—	—	320	320
Commercial Real Estate:						
Owner-occupied	—	—	—	—	336,435	336,435
Non-owner occupied	11,900	—	—	—	496,695	508,595
Construction and Land Development	—	—	—	17,783	392,915	410,698
Commercial – Non Real Estate:						
Commercial & Industrial	19	—	—	1,129	92,411	93,559
Consumer – Non Real Estate:						
Unsecured	—	—	—	—	326	326
Secured	—	—	—	—	1,906	1,906
Total	$ 14,638	$ —	$ —	$ 20,691	$ 1,765,890	$ 1,801,219

	December 31, 2023					
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due and Still Accruing	Nonaccrual	Current	Total Loans Receivable
Residential Real Estate:						
Single family	$ —	$ —	$ —	$ 149	$ 203,268	$ 203,417
Multifamily	—	—	—	—	271,040	271,040
Farmland	—	—	—	—	145	145
Commercial Real Estate:						
Owner-occupied	—	—	—	—	282,052	282,052
Non-owner occupied	—	—	—	—	461,775	461,775
Construction and Land Development	—	—	—	—	429,637	429,637
Commercial – Non Real Estate:						
Commercial & Industrial	—	—	—	851	74,564	75,415
Consumer – Non Real Estate:						
Unsecured	—	—	—	—	271	271
Secured	25	—	4	—	3,310	3,339
Total	$ 25	$ —	$ 4	$ 1,000	$ 1,726,062	$ 1,727,091

The following tables summarize the activity in the allowance for credit losses on loans by loan class for the three and six months ended June 30, 2024 and 2023.

Allowance for Credit Losses By Portfolio Segment

For the three months ended June 30, 2024 *(Dollars in thousands)*	Real Estate Residential	Real Estate Commercial	Real Estate Construction	Commercial	Consumer	Total
Beginning Balance	$ 2,468	$ 9,748	$ 3,327	$ 969	$ 19	$ 16,531
Charge-offs	—	—	(370)	—	—	(370)
Recoveries	—	—	—	—	6	6
Provision for (recovery of) credit losses	(15)	196	607	154	(11)	931
Ending Balance	$ 2,453	$ 9,944	$ 3,564	$ 1,123	$ 14	$ 17,098
For the six months ended June 30, 2024						
Beginning Balance, prior to adoption of ASC 326	$ 2,594	$ 8,888	$ 3,575	$ 1,435	$ 14	$ 16,506
Charge-offs	(132)	—	(370)	—	(9)	(511)
Recoveries	—	—	—	—	8	8
Provision for (recovery of) credit losses	(9)	1,056	359	(312)	1	1,095
Ending Balance	$ 2,453	$ 9,944	$ 3,564	$ 1,123	$ 14	$ 17,098

For the three months ended June 30, 2023 *(Dollars in thousands)*	Real Estate Residential	Real Estate Commercial	Real Estate Construction	Commercial	Consumer	Total
Beginning Balance	$ 2,195	$ 8,248	$ 3,547	$ 1,420	$ 25	$ 15,435
Charge-offs	—	—	—	—	(6)	(6)
Recoveries	—	—	—	—	1	1
Provision for (recovery of) credit losses	130	(64)	53	499	(1)	617
Ending Balance	$ 2,325	$ 8,184	$ 3,600	$ 1,919	$ 19	$ 16,047
For the six months ended June 30, 2023						
Beginning Balance	$ 2,146	$ 7,159	$ 3,347	$ 1,418	$ 44	$ 14,114
Impact of adopting ASC 326	59	614	19	172	31	895
Charge-offs	—	—	—	—	(6)	(6)
Recoveries	8	—	—	—	4	12
Provision for (recovery of) credit losses	112	411	234	329	(54)	1,032
Ending Balance	$ 2,325	$ 8,184	$ 3,600	$ 1,919	$ 19	$ 16,047

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

	June 30, 2024		
(Dollars in thousands)	**Nonaccrual Loans with No Allowance**	**Nonaccrual Loans with an Allowance**	**Total Nonaccrual Loans**
Residential Real Estate:			
Single family	$ 1,779	$ —	$ 1,779
Construction and Land Development	17,783	—	17,783
Commercial and Industrial	1,129	—	1,129
Total	$ 20,691	$ —	$ 20,691

	December 31, 2023		
(Dollars in thousands)	**Nonaccrual Loans with No Allowance**	**Nonaccrual Loans with an Allowance**	**Total Nonaccrual Loans**
Residential Real Estate:			
Single family	$ 149	$ —	$ 149
Commercial and Industrial	851	—	851
Total	$ 1,000	$ —	$ 1,000

The following table represents the accrued interest receivables written off by reversing interest income during the three and six months ended June 30, 2024. The Company did not write off accrued interest receivables during the three and six months ended June 30, 2023.

(Dollars in thousands)	**For the three months ended June 30, 2024**
Residential Real Estate:	
Single family	$ 67
Construction and Land Development	576
Commercial and Industrial	16
Total	$ 659

(Dollars in thousands)	**For the six months ended June 30, 2024**
Residential Real Estate:	
Single family	$ 75
Construction and Land Development	873
Commercial and Industrial	110
Total	$ 1,058

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral dependent loans:

- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage. Home equity lines of credit are generally secured by second mortgages on residential real estate property.
- Commercial real estate loans can be secured by either owner occupied commercial real estate or non-owner occupied investment commercial real estate. Typically owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Construction loans are typically secured by owner-occupied commercial real estate or non-owner occupied investment real estate. Typically, owner-occupied construction loans are secured by office buildings, warehouses, manufacturing facilities, and other commercial and industrial properties that are in process of construction. Non-owner occupied commercial construction loans are generally secured by office buildings and complexes, multi-family complexes, land under development, and other commercial and industrial real estate in process of construction.
- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral
- Commercial and industrial loans are generally secured by equipment, inventory, accounts receivable, and other commercial property.

The following table details the amortized cost of collateral dependent loans for the periods indicated:

(Dollars in thousands)	**June 30, 2024**
Residential Real Estate:	
Single family	$ 1,779
Construction and Land Development	17,783
Commercial and Industrial	1,458
Total	$ 21,020

(Dollars in thousands)	**December 31, 2023**
Residential Real Estate:	
Single family	$ 346
Commercial Real Estate:	
Owner occupied	1,120
Commercial and Industrial	851
Total	$ 2,317

As of June 30, 2024, there were loans totaling $ 10.5 million in the process of foreclosure.

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a weighted average remaining life model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

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

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

The following table shows the amortized cost basis of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty for the three and six months ended June 30, 2024. The Company did not modify any loans to borrowers experiencing financial difficulty during the three and six months ended June 30, 2023.

The following table details the loans modified to borrowers experiencing financial difficulty during the three months ended June 30, 2024.

	Term Extension		
(Dollars in thousands)	**Amortized Cost Basis**	**% of Total Loan Type**	**Financial Effect**
Construction and Land Development	12,627	3.1%	Extended amortization for five years
Total	$ 12,627		

The following table details the loans modified to borrowers experiencing financial difficulty during the six months ended June 30, 2024.

	Term Extension		
(Dollars in thousands)	**Amortized Cost Basis**	**% of Total Loan Type**	**Financial Effect**
Residential Real Estate:			
Single family	$ 364	0.2%	Deferred loan payment for three months
Construction and Land Development	24,684	6.0%	Extended term on interest only payments for six months; Extended amortization for five years
Commercial & Industrial	743	0.8%	Extended term on interest only payments for three months
Total	$ 25,791		

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Credit quality risk ratings include regulatory classifications of Pass, Special Mention, Substandard, Doubtful and Loss. Loans classified as Pass have quality metrics to support that the loan will be repaid according to the terms established. Loans classified as Special Mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of prospects for repayment. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, based on current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for credit losses. Loans not classified are rated pass.

The following tables summarize the amortized cost basis by aggregate Pass and categories of Special Mention (Criticized) and Substandard (Classified) within the Company's internal risk rating system by year of origination as of June 30, 2024 and December 31, 2023. The following tables also summarize gross charge-offs, by year of origination as of and for the six months ended June 30, 2024 and as of and for the year ended December 31, 2023.

June 30, 2024

(Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans converted to term	Total
Residential Real Estate - Single family									
Pass	$ 6,113	$ 45,957	$ 21,762	$ 24,925	$ 35,192	$ 41,984	$ 28,053	$ —	$ 203,986
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	3,559	2,099	—	509	—	6,167
Total Residential Real Estate - Single family	$ 6,113	$ 45,957	$ 21,762	$ 28,484	$ 37,291	$ 41,984	$ 28,562	$ —	$ 210,153
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 132	$ —	$ —	$ 132
Residential Real Estate - Multifamily									
Pass	$ 5,698	$ 31,596	$ 54,190	$ 47,391	$ 39,312	$ 36,709	$ 21,085	$ —	$ 235,981
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	3,246	—	—	—	—	3,246
Total Residential Real Estate - Multifamily	$ 5,698	$ 31,596	$ 54,190	$ 50,637	$ 39,312	$ 36,709	$ 21,085	$ —	$ 239,227
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential Real Estate - Farmland									
Pass	$ 180	$ —	$ —	$ —	$ —	$ 140	$ —	$ —	$ 320
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total Residential Real Estate - Farmland	$ 180	$ —	$ —	$ —	$ —	$ 140	$ —	$ —	$ 320
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial Real Estate - Owner-occupied									
Pass	$ 5,385	$ 67,735	$ 77,301	$ 41,810	$ 39,051	$ 81,746	$ 23,407	$ —	$ 336,435
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total Commercial Real Estate - Owner occupied	$ 5,385	$ 67,735	$ 77,301	$ 41,810	$ 39,051	$ 81,746	$ 23,407	$ —	$ 336,435
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial Real Estate - Non-owner occupied									
Pass	$ 30,201	$ 22,345	$ 142,004	$ 51,698	$ 46,689	$ 168,382	$ 31,060	$ —	$ 492,379
Criticized	—	—	—	—	15,866	—	—	—	15,866
Classified	—	—	—	—	350	—	—	—	350
Total Commercial Real Estate - Non-owner occupied	$ 30,201	$ 22,345	$ 142,004	$ 51,698	$ 62,905	$ 168,382	$ 31,060	$ —	$ 508,595
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Construction and Land Development									
Pass	$ 1,286	$ 8,256	$ 23,264	$ 14,693	$ 1,146	$ 7,760	$ 336,510	$ —	$ 392,915
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	1,124	1,454	—	9,115	—	6,090	—	17,783
Total Construction and Land Development	$ 1,286	$ 9,380	$ 24,718	$ 14,693	$ 10,261	$ 7,760	$ 342,600	$ —	$ 410,698
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ 370	$ —	$ —	$ —	$ 370
Commercial and Industrial									
Pass	$ 3,446	$ 8,484	$ 8,590	$ 6,130	$ 2,764	$ 8,948	$ 49,364	$ —	$ 87,726
Criticized	—	—	—	—	—	—	—	—	—
Classified	664	—	—	372	—	1,644	3,153	—	5,833
Total Commercial and Industrial	$ 4,110	$ 8,484	$ 8,590	$ 6,502	$ 2,764	$ 10,592	$ 52,517	$ —	$ 93,559

Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer - Unsecured									
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 326	$ —	$ 326
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total Consumer - Unsecured	$ —	$ —	$ —	$ —	$ —	$ —	$ 326	$ —	$ 326
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer - Secured									
Pass	$ 95	$ 48	$ 221	$ —	$ 25	$ 1,437	$ 80	$ —	$ 1,906
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total Consumer - Secured	$ 95	$ 48	$ 221	$ —	$ 25	$ 1,437	$ 80	$ —	$ 1,906
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 9	$ —	$ —	$ 9
Total									
Pass	$ 52,404	$ 184,421	$ 327,332	$ 186,647	$ 164,179	$ 347,106	$ 489,885	$ —	$1,751,974
Criticized	—	—	—	—	15,866	—	—	—	15,866
Classified	664	1,124	1,454	7,177	11,564	1,644	9,752	—	33,379
Total	$ 53,068	$ 185,545	$ 328,786	$ 193,824	$ 191,609	$ 348,750	$ 499,637	$ —	$1,801,219
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ 370	$ 141	$ —	$ —	$ 511

December 31, 2023 (Dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans converted to term	Total
Residential Real Estate - Single family									
Pass	$ 50,101	$ 17,502	$ 26,434	$ 34,453	$ 20,610	$ 20,542	$ 33,217	$ —	$ 202,859
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	409	—	149	—	558
Total Residential Real Estate - Single family	$ 50,101	$ 17,502	$ 26,434	$ 34,453	$ 21,019	$ 20,542	$ 33,366	$ —	$ 203,417
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential Real Estate - Multifamily									
Pass	$ 28,346	$ 81,180	$ 60,156	$ 39,286	$ 27,270	$ 10,797	$ 24,005	$ —	$ 271,040
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total Residential Real Estate - Multifamily	$ 28,346	$ 81,180	$ 60,156	$ 39,286	$ 27,270	$ 10,797	$ 24,005	$ —	$ 271,040
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential Real Estate - Farmland									
Pass	$ —	$ —	$ —	$ —	$ —	$ 145	$ —	$ —	$ 145
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total Residential Real Estate - Farmland	$ —	$ —	$ —	$ —	$ —	$ 145	$ —	$ —	$ 145
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial Real Estate - Owner-occupied									
Pass	$ 70,476	$ 55,222	$ 43,576	$ 39,621	$ 32,044	$ 37,360	$ 2,633	$ —	$ 280,932
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	1,120	—	—	—	1,120
Total Commercial Real Estate - Owner occupied	$ 70,476	$ 55,222	$ 43,576	$ 39,621	$ 33,164	$ 37,360	$ 2,633	$ —	$ 282,052
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial Real Estate - Non-owner occupied									
Pass	$ 23,091	$ 101,617	$ 51,291	$ 48,692	$ 30,595	$ 150,629	$ 32,122	$ —	$ 438,037
Criticized	—	—	—	16,000	—	—	—	—	16,000
Classified	—	—	—	—	7,738	—	—	—	7,738
Total Commercial Real Estate - Non-owner occupied	$ 23,091	$ 101,617	$ 51,291	$ 64,692	$ 38,333	$ 150,629	$ 32,122	$ —	$ 461,775
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Construction and Land Development									
Pass	$ 6,416	$ 32,544	$ 13,612	$ 2,455	$ —	$ 8,118	$ 355,689	$ —	$ 418,834
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	1,454	—	—	—	—	9,349	—	10,803
Total Construction and Land Development	$ 6,416	$ 33,998	$ 13,612	$ 2,455	$ —	$ 8,118	$ 365,038	$ —	$ 429,637
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and Industrial									
Pass	$ 10,150	$ 5,271	$ 13,530	$ 3,495	$ 1,230	$ 10,466	$ 27,299	$ —	$ 71,441
Criticized	—	—	—	—	—	—	2,997	—	2,997
Classified	—	—	—	—	536	353	88	—	977
Total Commercial and Industrial	$ 10,150	$ 5,271	$ 13,530	$ 3,495	$ 1,766	$ 10,819	$ 30,384	$ —	$ 75,415
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ 261	$ 201	$ —	$ —	$ 462
Consumer - Unsecured									
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 271	$ —	$ 271

Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total Consumer - Unsecured	$ —	$ —	$ —	$ —	$ —	$ —	$ 271	$ —	$ 271
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer - Secured									
Pass	$ 55	$ 252	$ 3	$ 51	$ 1,400	$ 1,497	$ 81	$ —	$ 3,339
Criticized	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total Consumer - Secured	$ 55	$ 252	$ 3	$ 51	$ 1,400	$ 1,497	$ 81	$ —	$ 3,339
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 6	$ —	$ —	$ 6
Total									
Pass	$ 188,635	$ 293,588	$ 208,602	$ 168,053	$ 113,149	$ 239,554	$ 475,317	$ —	$1,686,898
Criticized	—	—	—	16,000	—	—	2,997	—	18,997
Classified	—	1,454	—	—	9,803	353	9,586	—	21,196
Total	$ 188,635	$ 295,042	$ 208,602	$ 184,053	$ 122,952	$ 239,907	$ 487,900	$ —	$1,727,091
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ 261	$ 207	$ —	$ —	$ 468

Unfunded Commitments

The Company maintains an allowance for credit losses on off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e. commitment cannot be canceled at any time). The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on funded loans. The allowance for credit losses for off-balance sheet credit exposure is classified on the balance sheet within other liabilities.

The following table presents the balance and activity in the allowance for credit losses for off-balance sheet credit exposure for the three and six months ended June 30, 2024 and 2023, respectively.

Three months ended June 30, 2024	**Total Allowance for Credit Losses on Off-Balance Sheet Credit Exposure**
(Dollars in thousands)	
Balance, March 31, 2024	$ 650
Recovery of off-balance sheet credit losses, net	(293)
Balance, June 30, 2024	$ 357

Six months ended June 30, 2024	**Total Allowance for Credit Losses on Off-Balance Sheet Credit Exposure**
(Dollars in thousands)	
Balance, December 31, 2023	$ 1,009
Recovery of off-balance sheet credit losses, net	(652)
Balance, June 30, 2024	$ 357

Three months ended June 30, 2023	**Total Allowance for Credit Losses on Off-Balance Sheet Credit Exposure**
(Dollars in thousands)	
Balance, March 31, 2023	$ 1,178
Provision for off-balance sheet credit losses, net	21
Balance, June 30, 2023	$ 1,199

Six months ended June 30, 2023	**Total Allowance for Credit Losses on Off-Balance Sheet Credit Exposure**
(Dollars in thousands)	
Balance, December 31, 2022	$ —
Adjustment to allowance for off-balance sheet credit losses upon adoption of ASU 2016-13	1,310
Recovery of off-balance sheet credit losses, net	(111)
Balance, June 30, 2023	$ 1,199

Note 4. Intangible Assets

The carrying amount of computer software developed was $17.2 million and $14.7 million at June 30, 2024 and December 31, 2023. The following table presents the carrying amount of computer software developed as of June 30, 2024 and December 31, 2023.

	As of June 30, 2024		**As of December 31, 2023**	
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortizable intangible assets:				
Computer software	$ 17,205	$ —	$ 14,657	$ —
Total	$ 17,205	$ —	$ 14,657	$ —

The Company is still in the development stage of computer software where costs are capitalized. Capitalization ceases when the software is substantially complete and ready for its intended use. At that time the intangible asset will be amortized on a straight-line basis over the estimated useful life of the asset. As of June 30, 2024, the Company has not recorded any amortization on its intangible computer software. We anticipate the amortization period for intangible computer software to be ten years, once placed in service, which is expected to begin in the second half of 2024.

Note 5. Derivatives and Risk Management Activities

The Company uses derivative financial instruments ("derivatives") primarily to assist customers with their risk management objectives. The Company classifies these items as free standing derivatives consisting of customer accommodation interest rate loan swaps ("interest rate loan swaps"). The Company enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Company simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Company receives a floating rate. These back-to-back interest rate loan swaps qualify as financial derivatives with fair values reported in "Other assets" and "Other liabilities" in the consolidated financial statements. Changes in fair value are recorded in other noninterest expense and net to zero because of the identical amounts and terms of the interest rate loan swaps.

The following tables summarize key elements of the Company's derivative instruments as of June 30, 2024 and December 31, 2023.

June 30, 2024

Customer-related interest rate contracts

Dollars in thousands)	**Notional Amount**	**Number of Positions**	**Assets**	**Liabilities**	**Collateral Pledges**
Matched interest rate swap with borrower	$ 218,962	40	$ —	$ 22,423	$ —
Matched interest rate swap with counterparty	$ 218,962	40	$ 22,423	$ —	$ —

December 31, 2023
Customer-related interest rate contracts

Dollars in thousands)	**Notional Amount**	**Number of Positions**	**Assets**	**Liabilities**	**Collateral Pledges**
Matched interest rate swap with borrower	$ 224,008	42	$ —	$ 18,569	$ —
Matched interest rate swap with counterparty	$ 224,008	42	$ 18,569	$ —	$ —

The Company is able to recognize fee income upon execution of the interest rate swap contract. The Company did not record any interest rate swap fee income for the three and six months ended June 30, 2024 or 2023.

Note 6. Fair Value Presentation

In accordance with FASB ASC 820, "Fair Value Measurements and Disclosure", the Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability ("an exit price") in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank'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 the principal or most advantageous market for the asset or liability 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 the most representative of fair value under current market conditions.

In accordance with the guidance, a hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy under FASB ASC 820 based on these two types of inputs are as follows:

Level 1 –Valuation is based on quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

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 Bank 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 consider observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. As of June 30, 2024, and December 31, 2023, the Bank's entire portfolio of available for sale securities are considered to be Level 2 securities, with the exception of one subordinated debt security and one preferred stock security which are considered Level 3.

Derivative asset (liability) – interest rate swaps on loans

As discussed in "Note 5: "Derivative and Risk Management Activities", the Bank recognizes interest rate swaps at fair value on a recurring basis. The Bank has contracted with a third party vendor to provide valuations for these interest rate swaps using standard valuation techniques and therefore classifies such interest rate swaps as Level 2.

The following tables provide the fair value for assets required to be measured and reported at fair value on a recurring basis as of June 30, 2024 and December 31, 2023:

	June 30, 2024			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Investment securities available-for-sale:				
Collateralized Mortgage Backed	$ —	$ 18,128	$ —	$ 18,128
Subordinated Debt	—	7,851	250	8,101
Preferred Stock	—	—	445	445
Municipal Securities:				
Taxable	—	8,252	—	8,252
Tax-exempt	—	20,203	—	20,203
U.S. Government Agencies	—	2,476	—	2,476
Derivative asset – interest rate swap on loans	—	22,423	—	22,423
Total	$ —	$ 79,333	$ 695	$ 80,028
Liabilities:				
Derivative liability – interest rate swap on loans	$ —	$ 22,423	$ —	$ 22,423
Total	$ —	$ 22,423	$ —	$ 22,423

	December 31, 2023			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Investment securities available-for-sale:				
Collateralized Mortgage Backed	$ —	$ 19,515	$ —	$ 19,515
Subordinated Debt	—	8,217	250	8,467
Municipal Securities:				
Taxable	—	8,307	—	8,307
Tax-exempt	—	20,742	—	20,742
U.S. Government Agencies	—	2,897	—	2,897
Derivative asset – interest rate swap on loans	—	18,569	—	18,569
Total	$ —	$ 78,247	$ 250	$ 78,497
Liabilities:				
Derivative liability – interest rate swap on loans	$ —	$ 18,569	$ —	$ 18,569
Total	$ —	$ 18,569	$ —	$ 18,569

The table below shows the activity to the fair value of level three instruments during the six months ended June 30, 2024.

Reconciliation of Level 3 Inputs	
(Dollars in thousands)	
December 31, 2023 fair value	$ 250
Additions	445
June 30, 2024 fair value	$ 695

Certain 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 Company did not have any assets that were measured at fair value on a nonrecurring basis as of June 30, 2024 and December 31, 2023.

Fair Value of Financial Instruments

FASB ASC 825, Financial Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. In accordance with ASU 2016-01, the Company uses the exit price notion, rather than the entry price notion, in calculating the fair values of financial instruments not measured at fair value on a recurring basis.

The following tables reflect the carrying amounts and estimated fair values of the Company's financial instruments whether or not recognized on the Consolidated Statement of Financial Condition at fair value.

June 30, 2024 ***(Dollars in thousands)***	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Assets:					
Cash and cash equivalents	$ 91,459	$ 91,459	$ 91,459	$ —	$ —
Securities:					
Available-for-sale	57,605	57,605	—	56,910	695
Held-to-maturity	16,036	15,790	—	15,790	—
Restricted securities	26,797	26,797	—	26,797	—
Loans, net	1,778,840	1,777,202	—	—	1,777,202
Derivative asset – interest rate swap on loans	22,423	22,423	—	22,423	—
Bank owned life insurance	38,901	38,901	—	38,901	—
Accrued interest receivable	10,549	10,549	—	10,549	—
Liabilities:					
Deposits	$ 1,755,363	$ 1,758,011	$ —	$ 1,031,412	$ 726,599
Subordinated debt, net	72,841	69,756	—	69,756	—
Derivative liability – interest rate swaps on loans	22,423	22,423	—	22,423	—
Accrued interest payable	3,253	3,253	—	3,253	—

December 31, 2023 ***(Dollars in thousands)***	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Assets:					
Cash and cash equivalents	$ 114,513	$ 114,513	$ 114,513	$ —	$ —
Securities:					
Available-for-sale	59,928	59,928	—	59,678	250
Held-to-maturity	17,275	17,163	—	17,163	—
Restricted equity securities	24,356	24,356	—	24,356	—
Loans, net	1,705,137	1,701,418	—	—	1,701,418
Derivative asset – interest rate swap on loans	18,569	18,569	—	18,569	—
Bank owned life insurance	38,318	38,318	—	38,318	—
Accrued interest receivable	10,725	10,725	—	10,725	—
Liabilities:					
Deposits	$ 1,686,127	$ 1,685,487	$ —	$ 989,791	$ 695,696
Subordinated debt, net	72,642	56,513	—	56,513	—
Federal funds purchased	15,000	14,968	—	—	14,968
Derivative liability – interest rate swaps on loans	18,569	18,569	—	18,569	—
Accrued interest payable	2,845	2,845	—	2,845	—

The above information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. Assumptions utilized in the aggregation of fair value of our loan portfolio include prepayment rates, probability of default and loss given default, and discount rates on cash flows. Our third party valuation utilizes average data by homogenous loan segments nationwide and may not properly reflect the characteristics of our specific portfolio. There were no changes in methodologies or transfers between levels at June 30, 2024 and December 31, 2023.

Note 7. Earnings Per Common Share

Basic earnings per common share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock which then shared in the earnings of the Company. There were no such potentially dilutive securities outstanding in 2024 or 2023.

The weighted average number of shares used in the calculation of basic and diluted earnings per common share includes unvested restricted shares of the Company's common stock outstanding. Applicable guidance requires that outstanding un-vested share-based payment awards that contain voting rights and rights to non-forfeitable dividends participate in undistributed earnings with common shareholders.

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
(Dollars in thousands, except for share and per share data)	**2024**	**2023**	**2024**	**2023**
Net income	$ 2,618	$ 6,946	$ 5,923	$ 15,098
Preferred stock dividends	(539)	(539)	(1,078)	(1,078)
Net income available to common shareholders	$ 2,079	$ 6,407	$ 4,845	$ 14,020
Weighted average number of common shares issued, basic and diluted	7,608,389	7,522,764	7,610,188	7,519,949
Earnings per common share:				
Basic and diluted earnings per common share	$ 0.27	$ 0.85	$ 0.64	$ 1.86

Note 8. Accumulated Other Comprehensive Loss

The following table presents the cumulative balances of the components of accumulated other comprehensive loss, net of deferred taxes, as of June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Unrealized loss on investment securities available-for-sale	$ (10,445)	$ (9,737)
Unrealized loss on securities transferred to HTM	—	(6)
Tax benefit	2,402	2,265
Total accumulated other comprehensive loss	$ (8,043)	$ (7,478)

Note 9. Leases

Right-of-use assets and lease liabilities are included in other assets and other liabilities, respectively, in the Consolidated Statements of Financial Condition. Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. The incremental borrowing rate was equal to the rate of borrowing from the FHLB that aligned with the term of the lease contract. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs, and any incentives received from the lessor.

Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following table presents the balance and activity in leases for the three and six months ended June 30, 2024 and 2023, respectively

(Dollars in thousands)	As of June 30, 2024	As of December 31, 2023
Lease liabilities	$ 6,721	$ 6,902
Right-of-use assets	6,017	6,211
Weighted-average remaining lease term – operating leases (in months).	150.1	155.9
Weighted-average discount rate – operating leases	2.81%	2.80%

(Dollars in thousands)	For the three months ended June 30, 2024	2023
Lease Cost		
Operating lease cost	$ 174	$ 169
Total lease costs	$ 174	$ 169
Cash paid for amounts included in measurement of lease liabilities	$ 169	$ 160

(Dollars in thousands)	For the six months ended June 30, 2024	2023
Lease Cost		
Operating lease cost	$ 345	$ 242
Total lease costs	$ 345	$ 242
Cash paid for amounts included in measurement of lease liabilities	$ 332	$ 138

The Company is the lessor for three operating leases. One lease is extended on a month-to-month basis while two of these leases have arrangements for over twelve months with an option to extend the lease terms. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations. Total rent income on these operating leases is approximately $8,000 per month.

As of June 30, 2024 and December 31, 2023, all of the Company's lease obligations are classified as operating leases. The Company does not have any finance lease obligations.

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities as of June 30, 2024 is as follows:

(Dollars in thousands)		
2024	$	339
2025		691
2026		709
2027		589
2028		594
Thereafter		4,363
Total undiscounted cash flows	$	7,285
Discount		(564)
Lease liabilities	$	6,721

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

The following discussion and analysis is intended as a review of significant factors affecting the Company's consolidated financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the related notes and the Company's Annual Report on Form 10-K, which contains audited consolidated financial statements of the Company as of and for the year ended December 31, 2023, previously filed with the SEC on March 20, 2024. Results for the three and six months ended June 30, 2024 are not necessarily indicative of results for the year ending December 31, 2024 or any future period.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements and information relating to the Company within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on the beliefs of management as well as assumptions made by and information currently available to management. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like "believe," "expect," "anticipate," "estimate," and "intend" or future or conditional verbs such as "will," "should," "could," or "may" and similar expressions or the negative thereof. Important factors that could cause actual results to differ materially from those in the forward–looking statements included herein include, but are not limited to:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- competition among depository and other financial institutions, particularly intensified competition for deposits;
- inflation and an interest rate environment that may reduce our margins or reduce the fair value of certain of our financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory structure and in regulatory fees and capital requirements;
- the impact of significant changes in accounting procedures or requirements on our financial condition or results of operations;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired and newly organized entities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices;
- changes in our organization, compensation and benefit plans;
- our ability to attract and retain key employees;
- changes in our financial condition or results of operations that reduce capital;
- changes in the financial condition or future prospects of issuers of securities that we own;
- the concentration of our business in the Northern Virginia as well as the greater Washington, DC metropolitan area and the effect of changes in the economic, political and environmental conditions on those markets;
- adequacy of or increases in the allowance for credit losses;

- cyber threats, attacks or other data security events;
- fraud or misconduct by internal or external parties;
- reliance on third parties for key services;
- deterioration of our asset quality, including an increase in loan delinquencies, problem assets and foreclosures;
- future performance of our loan portfolio with respect to recently originated loans;
- additional risks related to new lines of business, products, product enhancements or services;
- results of examination of us by our regulators, including the possibility that our regulators may require us to increase our allowance for credit losses or to write-down assets or take other supervisory action;
- the effectiveness of our internal controls over financial reporting and our ability to remediate any future material weakness in our internal controls over financial reporting;
- liquidity, interest rate and operational risks associated with our business;
- implications of our status as a smaller reporting company and as an emerging growth company;
- a work stoppage, forced quarantine, or other interruption or the unavailability of key employees; and
- other risk factors and information included in our Annual Report on Form 10-K for the year ended December 31, 2023 and this Quarterly Report on Form 10-Q.

Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. We caution readers not to place undue reliance on forward-looking statements. The Company disclaims any obligation to revise or update any forward-looking statements contained in this Form 10-Q to reflect future events or developments.

Overview

As used herein, the “Company,” “we,” “our,” and “us” refer to MainStreet Bancshares, Inc. and its subsidiaries, and the “Bank” refers to MainStreet Bank.

MainStreet Bancshares, Inc.

MainStreet Bancshares, Inc. is a financial holding company that owns 100% of MainStreet Bank and MainStreet Community Capital, LLC.

The Company and its subsidiaries are incorporated in and chartered by the Commonwealth of Virginia. The Company’s executive offices are located at 10089 Fairfax Boulevard, Fairfax, Virginia. Our telephone number is (703) 481-4567, and our internet address is www.mstreetbank.com. The information contained on our website shall not be considered part of this Quarterly Report on Form 10-Q, and the reference to our website does not constitute incorporation by reference of the information contained on the website.

MainStreet Bank

MainStreet Bank is a community commercial bank incorporated in and chartered by the Commonwealth of Virginia. The Bank is a member of the Federal Reserve Bank of Richmond, and its deposits are insured by the FDIC. The Bank opened for business on May 26, 2004, and is headquartered in Fairfax, Virginia. We currently operate six Bank branches; located in Herndon, Fairfax, McLean, Clarendon, Leesburg in Virginia, and one in Washington D.C.

We emphasize providing responsive and personalized services to our clients. Due to the consolidation of financial institutions in our primary market area, we believe there is a significant opportunity for a local bank to provide a full range of financial services. By offering highly professional, personalized banking products and service delivery methods and employing advanced banking technologies, we seek to distinguish ourselves from larger, regional banks operating in our market area and believe we are able to compete effectively with other community banks.

We believe we have a solid franchise that meets the financial needs of our clients and communities by providing an array of personalized products and services delivered by seasoned banking professionals with decisions made at the local level. We believe a significant customer base in our market prefers to do business with a local institution that has a local management team, a local Board of Directors and local founders and that this customer base may not be satisfied with the responsiveness of larger regional banks. By providing quality services, coupled with the opportunities provided by the economies in our market area, we have generated and expect to continue to generate organic growth.

We service Northern Virginia as well as the greater Washington, D.C. metropolitan area. Our goal is to deliver a customized and targeted mix of products and services that meets or exceeds customer expectations. To accomplish this goal, we have deployed a premium operating system that gives customers access to up-to-date banking technology. These systems and our highly skilled staff have allowed us to compete with larger financial institutions. The combination of sophisticated technology and personal service sets us apart from our competition. We strive to be the leading community bank in our market.

We offer a full range of banking services to individuals, small to medium-sized businesses and professionals through both traditional and electronic delivery. We were the first community bank in the Washington, D.C. metropolitan area to offer a full online business banking solution, including remote check scanners on a business customer’s desktop. We offer mobile banking apps for iPhones, iPads and Android devices that provide for remote deposit of checks. In addition, we were the first bank headquartered in the Commonwealth of Virginia to offer CDARS, the Certificate of Deposit Account Registry Service, an innovative deposit insurance solution that provides FDIC insurance on deposits up to $150 million. We believe that enhanced electronic delivery systems and technology increase profitability through greater productivity and cost control and allow us to offer new and better products and services.

Our products and services include: business and consumer checking, premium interest-bearing checking, business account analysis, savings, certificates of deposit and other depository services, as well as a broad array of commercial, real estate and consumer loans. Internet account access is available for all personal and business accounts, internet bill payment services are available on most accounts, and a robust online cash management system is available for business customers.

Avenu

On October 25, 2021, MainStreet Bancshares, Inc. formally introduced Avenu, a division of MainStreet Bank. Avenu represents the Company’s suite of Banking as a Service (“BaaS”) solutions designed to meet the banking needs of Fintech customers. We believe our approach to providing a proprietary BaaS solution is unique. Our transformational subledger combined with our high-touch compliance training goes beyond the industry standards. This division of MainStreet Bank currently serves money service businesses, payment processors, and BaaS customers and provides the Bank with valuable low-cost deposits and additional streams of fee income. A major component of the BaaS solution includes a fintech core, which is Software as a Service (SaaS). As of June 30, 2024, we have capitalized $17.2 million in developing our SaaS solution, which is shown separately on our statement of financial condition. Our SaaS software program will be deployed in the second half of 2024. Additional information can be found in Note 4 of our consolidated financial statements, our investor presentations filed quarterly, and in the investor relations portion of our website.

MainStreet Community Capital, LLC

In August 2021, the Company created a community development entity (“CDE”) subsidiary, MainStreet Community Capital, LLC, a Virginia limited liability company, to apply for NMTC allocations from the U.S. Department of Treasury’s Community Development Financial Institutions Fund. To promote development in economically distressed areas, the NMTC program was established under the Community Renewal Tax Relief Act of 2000 to provide tax incentives for capital investment in disadvantaged market areas that have not experienced economic expansion. The program establishes a tax credit for investment in a CDE and ongoing compliance with the program is accomplished through a governing board and an advisory board which maintains accountability to residents and businesses in the aforementioned disadvantaged areas. This CDE will be an intermediary vehicle for the provision of loans and investments in Low-Income Communities (“LICs”).

Effects of Inflation

The United States is experiencing the effects of elevated inflation. In response, the Federal Open Markets Committee (FOMC) raised the Federal Funds rate 425 basis points throughout 2022 and an additional 100 basis points during the first nine months of 2023 and has maintained the Federal Funds Rate at 5.33% through the first half of 2024. In addition to raising the Federal Funds rate, the Federal Reserve may take other means necessary to fulfill its dual mandate.

The effects of inflation and the actions of the Federal Reserve, as well as the economy at large may impact the Bank’s customers, including their willingness and ability to repay their obligations, to invest, to save or to spend. This impact could affect the Bank’s customer's general appetite for banking products and the credit health of the Bank’s customer base. The timing and impact of inflation and rising interest rates on our business and related financial results will depend on future developments, which are highly uncertain and difficult to predict.

Critical Accounting Policies

The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Accordingly, the financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. Critical accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the current period or in future periods.

Our critical accounting policies involving significant judgments and assumptions used in the preparation of the consolidated financial statements as of June 30, 2024, have remained unchanged since our Annual Report on Form 10-K for the year ended December 31, 2023 was filed, unless noted herein. Any changes are discussed in our Recently Issued Accounting Pronouncements.

Comparison of Statements of Income for the Three Months Ended June 30, 2024 and 2023

General

Total revenue increased $2.7 million to $34.2 million for the three months ended June 30, 2024 from $31.5 million for the three months ended June 30, 2023. This increase in total revenue was offset primarily by an increase in interest expense. Total expenses increased $8.4 million to $30.7 million for the three months ended June 30, 2024 from $22.3 million for the three months ended June 30, 2023, of which interest expense accounted for $6.6 million. The increase in revenue for the three months ended June 30, 2024 was primarily due to increases in loan interest income of $2.7 million over the same period in 2023. Operating costs grew by 16.7%, or $1.8 million for the three months ended June 30, 2024 from $10.9 million for the three months ended June 30, 2023, as the Company ramps up staffing and infrastructure as Avenu is placed in service. Net income decreased $4.3 million to $2.6 million for the three months ended June 30, 2024 from $6.9 million for the three months ended June 30, 2023. The decrease in net income was primarily impacted by the sharp rise in funding costs that occurred in the last three quarters of 2023.

Interest Income

Total interest income increased $2.6 million, or 8.5%, to $33.3 million for the three months ended June 30, 2024 from $30.8 million for the three months ended June 30, 2023, on a tax equivalent basis. The increase was primarily the result of an increase in interest and fees on loans of $2.7 million. Total average interest-earning assets increased $129.8 million, to $1.96 billion for the three months ended June 30, 2024 from $1.83 billion for the same period in 2023 primarily because of an increase of $132.8 million in the average balance of loans and was offset by a decrease of $2.9 million in the average balance of federal funds sold and a $0.1 million decrease in the average balance of investment securities. The average yield on our interest-earning assets increased 9 basis points to 6.84% for the three months ended June 30, 2024 as compared to 6.75% for the three months ended June 30, 2023 primarily due to market conditions.

Interest and fees on loans increased $2.7 million, to $31.5 million for the three months ended June 30, 2024 from $28.9 million for the same period in 2023. This increase was primarily due to an increase in the average yield on loans and the average loans outstanding increasing $132.8 million, which increased to $1.78 billion for the three months ended June 30, 2024 from $1.65 billion for the three months ended June 30, 2023. The average yield on loans increased 8 basis points, or 1.1%, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023.

Interest income on federal funds sold and interest-earning deposits decreased by $96,000 to $1.1 million for the three months ended June 30, 2024, from $1.2 million for the three months ended June 30, 2023. The decrease was primarily due to a decrease in the average yield on these deposits as well as the average balances decreasing over the same time period. The average balance of interest-earning deposits and federal funds sold decreased $2.9 million to $84.7 million for the three months ended June 30, 2024 from $87.6 million for the same period in 2023. The average yield decreased to 5.13% for the three months ended June 30, 2024 from 5.40% for the same period in 2023.

Interest on investment securities increased by $27,000 to $769,000 for the three months ended June 30, 2024 from $742,000 for the three months ended June 30, 2023 on a fully tax-equivalent basis. Interest on investments in U.S. Treasury, U.S. Government Agencies, and U.S. Municipals decreased in total $7,000, or 1.9%, to $368,000 for the three months ended June 30, 2024, from $375,000 for the three months ended June 30, 2023. Interest on mortgage-backed securities increased by $12,000, or 14.6%, to $94,000 for the three months ended June 30, 2024, from $82,000 for the three months ended June 30, 2023. Subordinated debt interest income increased by $1,000, or 1.0%, to $128,000 for the three months ended June 30, 2024, from $127,000 for the three months ended June 30, 2023. The average yield on taxable securities increased 11 basis points, to 3.12% and the average yield on tax-exempt securities increased 16 basis points, to 3.71% on a tax equivalent basis for the three months ended June 30, 2024, from 3.01% and 3.55%, respectively, for the same period in 2023. Fluctuation in market rates resulted in investment income increasing, despite the average balance of investment securities decreasing by $0.1 million, to $92.0 million for the three months ended June 30, 2024, from $92.1 million for the three months ended June 30, 2023.

Interest Expense

Total interest expense increased $6.6 million, to $18.0 million for the three months ended June 30, 2024 from $11.4 million for the three months ended June 30, 2023, primarily due to a $2.0 million increase in interest expense on time deposits and a $2.7 million increase in interest expense on money market deposits. The Company also saw an increase of interest expense on interest bearing demand deposits of $1.9 million in the three months ended June 30, 2024 over the three months ended June 30, 2023. These increases were offset by a decrease of interest expense of $13,000 on advances from the Federal Home Loan Bank in the three months ended June 30, 2024, compared to the three months ended June 30, 2023.

Interest expense on deposits increased $6.6 million to $17.0 million for the three months ended June 30, 2024 from $10.4 million for the three months ended June 30, 2023 primarily as a result of an increase in average interest-bearing deposit yields and balances. The increase in average deposit balances was $207.8 million to $1.40 billion during the three months ended June 30, 2024 as compared to $1.19 billion for the three months ended June 30, 2023. The increase in the average balance of interest-bearing deposits was primarily a result of a $119.5 million increase in the average balance of money market deposit accounts and by a $98.4 million increase in the average balance of interest-bearing demand deposits. The average cost of deposits was 488 basis points for the three months ended June 30, 2024, compared to 350 basis points for the three months ended June 30, 2023. The average rate paid on money market deposits increased 147 basis points to 4.88% for the three months ended June 30, 2024 from 3.41% for the three months ended June 30, 2023. The average rate paid on interest-bearing demand deposits increased 370 basis points to 5.06% for the three months ended June 30, 2024 from 1.36% for the three months ended June 30, 2023 primarily due to market competition and the interest rate environment. The average cost of certificates of deposit increased by 113 basis points to 5.06% for the three months ended June 30, 2024 as compared to 3.93% for the three months ended June 30, 2023. The decrease in the average balance of non-interest bearing demand deposits for the three months ended June 30, 2024, primarily was the result of depositors looking for higher yielding products and market competition.

Net Interest Income

Net interest income decreased approximately $4.0 million, or 20.7%, to $15.3 million for the three months ended June 30, 2024 from $19.3 million for the three months ended June 30, 2023, on a tax equivalent basis, in connection with our net interest-earning assets decreasing $75.5 million to $473.4 million for the three months ended June 30, 2024 from $548.9 million for the three months ended June 30, 2023. The interest rate spread tightened by 120 basis points to 1.97% for the three months ended June 30, 2024 from 3.17% for the three months ended June 30, 2023, on a tax equivalent basis. The net interest margin compressed by 109 basis points from 4.24% for the three months ended June 30, 2023 to 3.15% for the three months ended June 30, 2024 on a tax equivalent basis. Refer to “Use of Certain Non-GAAP Financial Measures,” below, for a reconciliation of adjusted net interest margin.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. All average balances are based on daily balances.

	For the Three Months Ended June 30,					
	2024			2023		
	Average Balance	Interest Income/ Expense(6)	Yield/ Cost(5)(6)	Average Balance	Interest Income/ Expense(6)	Yield/ Cost(5)(6)
	(Dollars in thousands)					
Interest-earning assets:						
Loans(1)	$ 1,782,124	$ 31,546	7.10%	$ 1,649,300	$ 28,855	7.02%
Investment securities:						
Taxable	55,323	430	3.12%	54,270	407	3.01%
Tax-exempt	36,717	339	3.71%	37,876	335	3.55%
Federal funds and interest-bearing deposits	84,705	1,083	5.13%	87,608	1,179	5.40%
Total interest-earning assets	1,958,869	$ 33,398	6.84%	1,829,054	$ 30,776	6.75%
Non-interest-earning assets	131,656			83,599		
Total assets	$ 2,090,525			$ 1,912,653		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 172,221	$ 2,172	5.06%	$ 73,800	$ 251	1.36%
Savings and NOW deposits	47,767	190	1.60%	50,644	147	1.16%
Money market deposits	463,641	5,638	4.88%	344,118	2,926	3.41%
Time deposits	715,777	9,027	5.06%	723,056	7,077	3.93%
Total interest bearing deposits	1,399,406	17,027	4.88%	1,191,618	10,401	3.50%
Federal funds purchased	13,298	191	5.76%	15,174	201	5.31%
Federal Home Loan Bank advances	—	—	—	989	13	5.27%
Subordinated debt	72,802	820	4.52%	72,405	820	4.54%
Total interest-bearing liabilities	1,485,506	$ 18,038	4.87%	1,280,186	$ 11,435	3.58%
Non-interest-bearing liabilities:						
Demand deposits and other liabilities	381,825			424,505		
Total liabilities	1,867,331			1,704,691		
Stockholders' equity	223,194			207,962		
Total liabilities and stockholders' equity	$ 2,090,525			$ 1,912,653		
Net interest income		$ 15,360			$ 19,341	
Interest rate spread(2)			1.97%			3.17%
Net interest-earning assets(3)	$ 473,363			$ 548,868		
Net interest margin(4)			3.15%			4.24%
Average interest-earning assets to average interest-bearing liabilities	131.9%			142.87%		

(1) Includes loans classified as non-accrual
(2) Interest rate spread represents the difference between the average yield on average interest–earning assets and the average cost of average interest-bearing liabilities.
(3) Net interest earning assets represent total average interest–earning assets less average interest–bearing liabilities.
(4) Net interest margin represents net interest income divided by total average interest-earning assets.
(5) Annualized.
(6) Income and yields for all periods presented are reported on a fully tax-equivalent basis using the federal statutory tax rate of 21%. Refer to "Use of Certain Non-GAAP Financial Measures."

Rate/ Volume Analysis

The following table presents the effects of changing rates and volumes on net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior average volume). The volume column shows the effects attributable to changes in volume (changes in average volume multiplied by prior rate). Changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, . The Total Increase (Decrease) column represents the sum of the prior columns.

	For the Three Months Ended June 30, 2024 and 2023		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ 2,357	$ 334	$ 2,691
Investment securities:			
Taxable	8	15	23
Tax-exempt	(47)	51	4
Federal funds and interest-bearing deposits	(38)	(58)	(96)
Total interest-earning assets	2,280	342	2,622
Interest-bearing liabilities:			
Interest bearing demand deposits	632	1,289	1,921
Savings and NOW accounts	(52)	95	43
Money market deposits	1,210	1,502	2,712
Time deposits	(487)	2,437	1,950
Total interest bearing deposits	1,303	5,323	6,626
Federal funds purchased	(87)	77	(10)
Federal Home Loan Bank advances	(13)	—	(13)
Subordinated debt	16	(16)	—
Total interest-bearing liabilities	1,219	5,384	6,603
Change in net interest income	$ 1,061	$ (5,042)	$ (3,981)

Provision for Credit Losses

Management believes that the provision recorded for the period ended June 30, 2024 reflects a balance sufficient to provide for each allowance segment, using objective data and information available to us at this time in evaluating our standard analysis of local/national economic data, changes in underwriting quality, portfolio concentrations, experience of lending team, credit quality and supportable forecasts. We will continuously review the credit portfolio to determine the depth and breadth of potential credit losses. As we obtain additional information and to more accurately assess the full nature and extent of elevated risk to the credit portfolio that may arise, additional provision expenses may be required.

The provision for credit losses, which is an operating expense, is maintained to ensure that the allowance for credit losses is maintained at levels we consider necessary and appropriate to absorb expected credit losses at a balance sheet date. In determining the level of the allowance for credit losses on loans and off-balance sheet credit exposure, we consider past and current loss experience, evaluations of real estate collateral, current and future economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of non-performing loans. The amount of the allowance is based on estimates, and actual losses may vary from such estimates as more information becomes available over time or economic conditions change. This evaluation is inherently subjective, as it requires estimates and assumptions that are susceptible to significant revision as circumstances change or as more information becomes available. The allowance for credit losses is assessed monthly and provisions are made for credit losses as required in order to maintain the overall allowance.

The provision for credit losses on loans increased by $314,000 for the three months ended June 30, 2024 from a provision for credit losses on loans of $617,000 for the three months ended June 30, 2023. Loan originations, which totaled approximately $75.2 million for the three months ended June 30, 2023 decreased $30.6 million to $44.5 million for the three months ended June 30, 2024. The Company did see an uptick in non-performing loans at June 30, 2024, with a balance of $20.7 million, however this is largely attributed to two relationships who encountered liquidity constraints. The Company is proactive in identifying any potential issues and acts decisively when prudent. As of June 30, 2024, the Company had only 2.74% criticized and classified loans to total gross loans.

The recovery of credit losses on off-balance sheet credit exposure was $293,000 for the three months ended June 30, 2024 compared to a provision for credit losses of $21,000 for the three months ended June 30, 2023. The decrease in off-balance sheet credit exposure was primarily related to the utilization of revolving lines of credit.

During the three months ended June 30, 2024, special mention (criticized) loans increased $15.9 million and substandard (classified) loans increased $22.9 million as of June 30, 2024 to a balance of $33.4 million. Of the classified loans as of June 30, 2024, 55% are related to the two relationships that are experiencing a drop in liquidity due to the sharp rise in interest rates.

Classified loans have increased to $33.4 million as of June 30, 2024 compared to the same period in 2023. Approximately 55% of the classified loan balances are related to two borrowers who are experiencing liquidity tightening as a result of the sharp increase in interest rates. The Company routinely charges off potential exposure as identified, and identifies and executes the best course of action to minimize any further loss exposure. Approximately 45% of classified loans are made up of smaller credits that have been either placed on nonaccrual or the Company is monitoring closely to be able to assess repayment. As interest rates have risen significantly over the last two years, management believes in taking a proactive approach to risk management in the loan portfolio, particularly as credits are due to reprice in a new rate environment. During the three months ended June 30, 2024, there was $370,000 in charge-offs incurred and recoveries of $6,000 were received.

Non-Interest Income

Non-interest income increased $63,000, or 7.8%, to $873,000 for the three months ended June 30, 2024 from $810,000 for the three months ended June 30, 2023. The increase in non-interest income was primarily due to the adoption of the new accounting guidance that allowed for the use of proportional amortization on tax credit investments. In 2023, undistributed losses on operations of these investments were recognized in the income statement in non-interest income and subsequently are now recorded in income tax expense. Decreases in deposit account service charges in the three months ended June 30, 2024 were $45,000 compared to the same period in 2023. The decrease in account service charges was offset by an increase of $32,000 in bank owned life insurance income for the three months ended June 30, 2024, as a result of the elevated interest rate environment compared to same period in the prior year. During the three months ended June 30, 2024, the Company recorded a net loss on a security that was called and exchanged for a similar instrument from the same issuer, however, accounting guidance determined the transaction be treated as a disposal and acquisition under GAAP. The Company continues to focus on increasing non-interest income as it continues to add services that strategically benefit our customers.

Non-Interest Expense

Non-interest expense increased $1.8 million, or 16.7%, to $12.7 million for the three months ended June 30, 2024, from $10.9 million for the three months ended June 30, 2023 primarily because of increases in salaries and employee benefits of $889,000. The Company added sixteen employees as the franchise continues to grow and build out its strategic initiatives. Outside services, which includes professional fees for attorneys, accountants and consultants, increased $335,000 to $839,000 for the six months ended June 30, 2024, from $504,000 for the six months ended June 30, 2023. This increase is driven by regulatory requirements in audits and routine legal assistance as the Company grows. Information security tools increased approximately $120,000 to $186,000 for the three months ended June 30, 2024, from $67,000 for the three months ended June 30, 2023. FDIC insurance increased approximately $135,000 to $330,000 for the three months ended June 30, 2024, from $195,000 for the three months ended June 30, 2023 because of the make-up of the reserve pool as of June 30, 2024 compared to the reserve pool as of June 30, 2023. Offsetting these increases was a decrease in advertising and marketing expenses of $132,000, or 18.9%, to $566,000 for the three months ended June 30, 2024 from $698,000 for the three months ended June 30, 2023 due to timing and being selective in initiatives to further enhance the Company's brand.

Income Tax Expense

Income tax expense decreased $1.4 million, or 85.5%, to a tax expense of $238,000 for the three months ended June 30, 2024 from a tax expense of $1.6 million for the three months ended June 30, 2023. The decrease in federal income tax expense for the three months ended June 30, 2024 compared to the same period a year ago was driven by the decrease in income before income taxes of $5.7 million, to income before income tax of $2.9 million for the three months ended June 30, 2024 compared to income before income tax expense of $8.6 million for the same period in the prior year. The Company was able to apply and claim a research and development tax credit of approximately $326,000 for its associated work in developing a software platform. The Company also invests in projects that have tax credit benefits in order to help reduce its overall tax liability, timing of these tax credits are layered into our overall assessment. As a result of expanding its footprint, the Company has included assessments in income tax expense for potential state tax liabilities which totaled $76,000 for the three months ended June 30, 2024. For the three months ended June 30, 2024, the Company had an effective income tax expense rate of 8.3%, compared to an effective income tax expense rate of 19.1% for the three months ended June 30, 2023. The effective tax rate for the three months ended June 30, 2024 was largely impacted by a tax credit investment during the quarter with immediate credit claim components. Since the Company adopted the proportional amortization method to account for its tax credit investments, we expected our effective income tax rate to increase moderately.

Comparison of Statements of Income for the Six Months Ended June 30, 2024 and 2023

General

Total revenue increased $6.3 million to $67.5 million for the six months ended June 30, 2024 from $61.2 million for the six months ended June 30, 2023. This increase in total revenue was offset primarily by an increase in interest expense. Total expenses increased $18.5 million, to $60.0 million for the six months ended June 30, 2024 from $41.5 million for the six months ended June 30, 2023, of which interest expense accounted for $16.1 million. The increase in revenue for the six months ended June 30, 2024 was primarily due to increases in loan interest income of $6.4 million over the same period in 2023. Operating costs grew by 10.8%, or $2.4 million for the six months ended June 30, 2024 from $22.6 million for the six months ended June 30, 2023. Net income decreased $9.2 million to $5.9 million for the six months ended June 30, 2024 from $15.1 million for the six months ended June 30, 2023. The decrease in net income was primarily impacted by the sharp rise in funding costs that occurred in the last three quarters of 2023 and continues through the first six months 2024.

Interest Income

Total interest income increased $6.4 million, or 10.7%, to $65.8 million for the six months ended June 30, 2024 from $59.5 million for the six months ended June 30, 2023, on a tax equivalent basis. The increase was primarily the result of an increase in interest and fees on loans of $6.4 million. Total average interest-earning assets increased $114.9 million, to $1.94 billion for the six months ended June 30, 2024 from $1.82 billion for the same period in 2023 primarily because of an increase of $130.8 million in the average balance of loans and was offset by a decrease of $14.7 million in the average balance of federal funds sold and a $1.1 million decrease in the average balance of investment securities. The average yield on our interest-earning assets increased 27 basis points to 6.86% for the six months ended June 30, 2024 as compared to 6.59% for the six months ended June 30, 2023 primarily due to market conditions, and the Company strategically managing the balance sheet in response to the changing conditions.

Interest and fees on loans increased $6.4 million, to $62.0 million for the six months ended June 30, 2024 from $55.6 million for the same period in 2023. This increase was primarily due to an increase in the average yield on loans and the average loans outstanding increasing $130.8 million, which increased to $1.76 billion for the six months ended June 30, 2024 from $1.62 billion for the six months ended June 30, 2023. The average yield on loans increased 23 basis points, or 3.3% for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023.

Interest income on federal funds sold and interest-earning deposits decreased by $47,000 to $2.3 million for the six months ended June 30, 2024, from $2.3 million for the six months ended June 30, 2023. The decrease was primarily due to an decrease in the average balances despite the yield on these deposits increasing over the same time period. The average balance of interest-earning deposits and federal funds sold decreased $14.7 million to $88.3 million for the six months ended June 30, 2024 from $103.1 million for the same period in 2023. The average yield increased to 5.17% for the six months ended June 30, 2024 from 4.52% for the same period in 2023.

Interest on investment securities decreased by $50,000 to $1.5 million for the six months ended June 30, 2024 from $1.6 million for the six months ended June 30, 2023 on a fully tax-equivalent basis. Interest on investments in U.S. Treasury, U.S. Government Agencies, and U.S. Municipals decreased in total $21,000, or 2.7%, to $732,000 for the six months ended June 30, 2024, from $753,000 for the six months ended June 30, 2023. Interest on mortgage-backed securities decreased by $4,000, or 1.8%, to $196,000 for the six months ended June 30, 2024, from $200,000 for the six months ended June 30, 2023. Subordinated debt interest income increased by $3,000, or 1.2%, to $264,000 for the six months ended June 30, 2024, from $261,000 for the six months ended June 30, 2023. The average yield on taxable securities decreased 20 basis points, to 3.13% and the average yield on tax-exempt securities increased 14 basis points, to 3.70% on a tax equivalent basis for the six months ended June 30, 2024, from 3.33% and 3.56%, respectively, for the same period in 2023. Fluctuation in market rates and maturing securities resulted in investment income decreasing, in conjunction with, the average balance of investment securities decreasing by $1.1 million, to $92.8 million for the six months ended June 30, 2024, from $93.9 million for the six months ended June 30, 2023.

Interest Expense

Total interest expense increased $16.1 million, to $35.0 million for the six months ended June 30, 2024 from $19.0 million for the six months ended June 30, 2023, primarily due to a $6.6 million increase in interest expense on time deposits and a $6.7 million increase in interest expense on money market deposits. The Company also saw an increase of interest expense on interest bearing demand deposits of $3.4 million in the six months ended June 30, 2024 over the six months ended June 30, 2023. These increases were offset by a decrease of interest expense of $873,000 on advances from the Federal Home Loan Bank in the six months ended June 30, 2024, compared to the six months ended June 30, 2023.

Interest expense on deposits increased $16.9 million to $33.1 million for the six months ended June 30, 2024 from $16.2 million for the six months ended June 30, 2023 primarily as a result of an increase in average interest-bearing deposit yields and balances. The increase in average interest-bearing deposit balances was $253.6 million to $1.37 billion during the six months ended June 30, 2024 as compared to $1.11 billion for the six months ended June 30, 2023. The increase in the average balance of interest-bearing deposits was primarily a result of a $163.7 million increase in the average balance of money market deposit accounts and by an $80.7 million increase in the average balance of interest-bearing demand deposits. The average cost of deposits was 488 basis points for the six months ended June 30, 2024, compared to 293 basis points for the six months ended June 30, 2023. The average rate paid on money market deposits increased 194 basis points to 4.86% for the six months ended June 30, 2024 from 2.92% for the six months ended June 30, 2023. The average rate paid on interest bearing demand deposits increased 359 basis points to 5.11% for the six months ended June 30, 2024 from 1.52% for the six months ended June 30, 2023 primarily due to market competition and the interest rate environment. The average cost of time deposits increased by 181 basis points to 5.05% for the six months ended June 30, 2024 as compared to 3.24% for the six months ended June 30, 2023. The decrease in the average balance of non-interest bearing demand deposits for the six months ended June 30, 2024, primarily was the result of depositors looking for higher yielding products and market competition.

Net Interest Income

Net interest income decreased approximately $9.7 million, or 24.0%, to $30.7 million for the six months ended June 30, 2024 from $40.4 million for the six months ended June 30, 2023 in connection with our net interest-earning assets decreasing $102.8 million to $485.0 million for the six months ended June 30, 2024 from $587.8 million for the six months ended June 30, 2023. The interest rate spread tightened by 150 basis points to 1.99% for the six months ended June 30, 2024 from 3.49% for the six months ended June 30, 2023, on a tax equivalent basis. The net interest margin compressed by 127 basis points from 4.48% for the six months ended June 30, 2023 to 3.21% for the six months ended June 30, 2024 on a tax equivalent basis. Refer to “Use of Certain Non-GAAP Financial Measures,” below, for a reconciliation of adjusted net interest margin.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. All average balances are based on daily balances.

	For the Six Months Ended June 30,					
	2024			2023		
	Average Balance	Interest Income/ Expense (6)	Yield/ Cost(5)(6)	Average Balance	Interest Income/ Expense(6)	Yield/ Cost(5) (6)
	(Dollars in thousands)					
Interest-earning assets:						
Loans(1)	$ 1,755,443	$ 62,034	7.13%	$ 1,624,664	$ 55,586	6.90%
Investment securities:						
Taxable	55,708	865	3.13%	56,011	926	3.33%
Tax-exempt	37,068	681	3.70%	37,908	670	3.56%
Federal funds and interest-bearing deposits	88,349	2,264	5.17%	103,053	2,311	4.52%
Total interest-earning assets	1,936,568	$ 65,844	6.86%	1,821,636	$ 59,493	6.59%
Non-interest-earning assets	127,430			77,601		
Total assets	$ 2,063,998			$ 1,899,237		
Interest-bearing liabilities:						
Interest bearing demand deposits	$ 159,234	$ 4,032	5.11%	$ 78,568	$ 594	1.52%
Savings and NOW deposits	45,993	347	1.52%	51,290	255	1.00%
Money market deposits	448,647	10,816	4.86%	284,906	4,129	2.92%
Time deposits	712,898	17,861	5.05%	698,384	11,221	3.24%
Total interest bearing deposits	1,366,772	33,056	4.88%	1,113,148	16,199	2.93%
Federal funds purchased	10,386	298	5.79%	9,103	239	5.29%
Federal Home Loan Bank advances	1,648	46	5.63%	39,199	919	4.73%
Subordinated debt	72,752	1,640	4.55%	72,355	1,632	4.55%
Total interest-bearing liabilities	1,451,558	$ 35,040	4.87%	1,233,805	$ 18,989	3.10%
Non-interest-bearing liabilities:						
Demand deposits and other liabilities	389,792			460,632		
Total liabilities	1,841,350			1,694,437		
Stockholders' Equity	222,648			204,800		
Total liabilities and stockholders' equity	$ 2,063,998			$ 1,899,237		
Net interest income		$ 30,804			$ 40,504	
Interest rate spread(2)			1.99%			3.49%
Net interest-earning assets(3)	$ 485,010			$ 587,831		
Net interest margin(4)			3.21%			4.48%
Average interest-earning assets to average interest-bearing liabilities	133.41%			147.64%		

(1) Includes loans classified as non-accrual
(2) Interest rate spread represents the difference between the average yield on average interest–earning assets and the average cost of average interest-bearing liabilities.
(3) Net interest earning assets represent total average interest–earning assets less average interest–bearing liabilities.
(4) Net interest margin represents net interest income divided by total average interest-earning assets.
(5) Annualized.
(6) Income and yields for all periods presented are reported on a fully tax-equivalent basis using the federal statutory tax rate of 21%. Refer to "Use of Certain Non-GAAP Financial Measures."

Rate/ Volume Analysis

The following table presents the effects of changing rates and volumes on net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior average volume). The volume column shows the effects attributable to changes in volume (changes in average volume multiplied by prior rate). Changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, . The Total Increase (Decrease) column represents the sum of the prior columns.

	For the Six Months Ended June 30, 2024 and 2023		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
		(In thousands)	
Interest-earning assets:			
Loans	$ 4,559	$ 1,889	$ 6,448
Investment securities:			
Taxable	(5)	(56)	(61)
Tax-exempt	(34)	45	11
Federal funds and interest-bearing deposits	(691)	644	(47)
Total interest-earning assets	3,829	2,522	6,351
Interest bearing liabilities:			
Interest-bearing demand deposits	1,042	2,396	3,438
Savings and NOW accounts	(73)	165	92
Money market deposit accounts	3,102	3,585	6,687
Time deposits	238	6,402	6,640
Total interest bearing deposits	4,309	12,548	16,857
Federal funds purchased	35	24	59
Federal Home Loan Bank advances	(1,317)	444	(873)
Subordinated debt	8	—	8
Total interest-bearing liabilities	3,035	13,016	16,051
Change in net interest income	$ 794	$ (10,494)	$ (9,700)

Provision for Credit Losses

Management believes that the provision recorded for the period ended June 30, 2024 reflects a balance sufficient to provide for each allowance segment, using objective data and information available to us at this time in evaluating our standard analysis of local/national economic data, changes in underwriting quality, portfolio concentrations, experience of lending team, credit quality and supportable forecasts. We will continuously review the credit portfolio to determine the depth and breadth of potential credit losses. As we obtain additional information and to more accurately assess the full nature and extent of elevated risk to the credit portfolio that may arise, additional provision expenses may be required.

The provision for credit losses, which is an operating expense, is maintained to ensure that the allowance for credit losses is maintained at levels we consider necessary and appropriate to absorb expected credit losses at a balance sheet date. In determining the level of the allowance for credit losses on loans and off-balance sheet credit exposure, we consider past and current loss experience, evaluations of real estate collateral, current and future economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of non-performing loans. The amount of the allowance is based on estimates, and actual losses may vary from such estimates as more information becomes available over time or economic conditions change. This evaluation is inherently subjective, as it requires estimates and assumptions that are susceptible to significant revision as circumstances change or as more information becomes available. The allowance for credit losses is assessed monthly and provisions are made for credit losses as required in order to maintain the overall allowance.

The provision for credit losses on loans increased by $63,000 for the six months ended June 30, 2024 from a provision for credit losses on loans of $1.0 million for the six months ended June 30, 2023. Loan originations, which totaled approximately $128.2 million for the six months ended June 30, 2023 decreased $47.7 million to $80.5 million for the six months ended June 30, 2024. During the six months ended June 30, 2024, the Company was able to further segment many loans within the commercial and industrial segment that had collateral backed by government contracts. These loans present a different risk profile than typical commercial and industrial loans, and come with different qualitative factors within our credit loss model. The Company did see an uptick in non-performing loans at June 30, 2024, with a balance of $20.7 million, however this is largely attributed to two relationships who encountered liquidity constraints. The Company is proactive in identifying issues and acts decisively when prudent. As of June 30, 2024, the Company had only 2.74% criticized and classified loans to total gross loans.

The recovery of credit losses on off-balance sheet credit exposure was $652,000 for the six months ended June 30, 2024 and $111,000 for the six months ended June 30, 2023. The decrease in off-balance sheet credit exposure was primarily related to the utilization of revolving lines of credit.

During the six months ended June 30, 2024, special mention (criticized) loans decreased $3.1 million. Substandard (classified) loans increased $12.2 million as of June 30, 2024 to a balance of $33.4 million. Of the classified loans as of June 30, 2024, 55% are related to the two relationships that are experiencing a drop in liquidity due to the sharp rise in interest rates. Approximately 45% of classified loans are made up of smaller credits that have been placed on nonaccrual or the Company is monitoring closely to be able to assess repayment. During the six months ended June 30, 2024, the Company has adjusted certain factors within the allowance for credit loss model to respond to the current increase in nonperforming loans. As interest rates have risen significantly over the last two years, management believes in taking a proactive approach to risk management in the loan portfolio, particularly as credits are due to reprice in a new rate environment. During the six months ended June 30, 2024, there was $511,000 in charge-offs incurred and recoveries of $8,000 were received.

Non-Interest Income

Non-interest income decreased $49,000, or 2.7%, to $1.8 million for the six months ended June 30, 2024 from $1.8 million for the six months ended June 30, 2023. The decrease in non-interest income was primarily due to decreases in deposit account service charges in the six months ended June 30, 2024 compared to the same period in 2023. The decrease in account service charges was offset by an increase $69,000 in bank owned life insurance income for the six months ended June 30, 2024, as a result of the elevated interest rate environment compared to same period in the prior year. The Company continues to focus on increasing fee income as it continues to add services that strategically benefit our customers. The Company recognized a loss of $48,000 on a security that was called and replaced with more favorable terms that benefited both the bond issuers and bond holders.

Non-Interest Expense

Non-interest expense increased $2.4 million, or 10.8%, to $25.0 million for the six months ended June 30, 2024, from $22.6 million for the six months ended June 30, 2023 primarily because of increases in furniture and equipment expenses and other various operating expenses of $1.5 million. Salaries and employee benefits increased $756,000 for the six months ended June 30, 2024 compared to the same period in 2023. The Company added sixteen employees as the franchise continues to grow and build out it strategic initiatives. Outside services, which includes professional fees for attorneys, accountants and consultants, increased $620,000 to $1.6 million for the six months ended June 30, 2024, from $994,000 for the six months ended June 30, 2023. This increase is driven by regulatory requirements in audits and routine legal assistance as the Company grows. Information security tools and other software expenses increased approximately $181,000 to $312,000 for the six months ended June 30, 2024, from $131,000 for the six months ended June 30, 2023. FDIC insurance increased approximately $235,000 to $660,000 for the six months ended June 30, 2024, from $425,000 for the six months ended June 30, 2023 because of the make-up of the FDIC reserve pool for participating banks as of June 30, 2024 compared to the reserve pool as of June 30, 2023. Offsetting these increases was a decrease in advertising and marketing expenses of $475,000, or 31.8%, to $1.0 million for the six months ended June 30, 2024 from $1.5 million for the six months ended June 30, 2023 due to timing and being selective in initiatives to further enhance the Company's brand.

Income Tax Expense

Income tax expense decreased $2.5 million, or 70.3%, to a tax expense of $1.1 million for the six months ended June 30, 2024 from a tax expense of $3.6 million for the six months ended June 30, 2023. The decrease in federal income tax expense for the six months ended June 30, 2024 compared to the same period a year ago was driven by the decrease in income before income taxes of $11.7 million, to income before income tax of $7.0 million for the six months ended June 30, 2024 compared to income before income tax expense of $18.7 million for the same period in the prior year. The Company was able to apply and claim a research and development tax credit of approximately $326,000 for its associated work in developing a software platform in 2024. The Company also invests in projects that have tax credit benefits in order to help reduce its overall tax liability. As a result of expanding its footprint, the Company has included assessments in income tax expense for potential state tax liabilities which totaled $181,000 for the six months ended June 30, 2024. For the six months ended June 30, 2024, the Company had an effective income tax expense rate of 15.3%, compared to an effective income tax expense rate of 19.3% for the six months ended June 30, 2023.

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

Total Assets

Total assets increased $58.3 million, or 2.9%, to $2.1 billion at June 30, 2024 from $2.0 billion at December 31, 2023. The increase was primarily the result of increases in the loan portfolio of $73.7 million and was offset by a decrease in federal funds sold of $11.2 million as of June 30, 2024.

Investment Securities

Investment securities decreased $1.1 million, or 1.1%, from $101.6 million at December 31, 2023 to $100.4 million at June 30, 2024. The decrease was primarily due to normal paydown of available-for-sale securities and amortization of certain restricted stock securities, which was offset by new investments of restricted equities of $2.4 million. At June 30, 2024, our held-to-maturity portion of the securities portfolio, at amortized cost, was $16.0 million, and our available-for-sale portion of the securities portfolio, at fair value, was $57.6 million compared to our held-to-maturity portion of the securities portfolio of $17.3 million and our available-for-sale portion of the securities portfolio of $59.9 million at December 31, 2023.

Net Loans

Net loans increased $73.7 million, or 4.3%, to $1.78 billion at June 30, 2024 from $1.71 billion at December 31, 2023. Residential real estate loans decreased $24.9 million, or 5.2%, to $449.7 million at June 30, 2024 from $474.6 million at December 31, 2023. Commercial real estate loans increased by $101.2 million from $743.8 million at December 31, 2023 to $845.0 million at June 30, 2024. Commercial and industrial loans increased by $18.2 million from $75.4 million at December 31, 2023 to $93.6 million at June 30, 2024. Construction and land development loans decreased $18.9 million to $410.7 million at June 30, 2024 from $429.6 million at December 31, 2023. Consumer loans decreased by $1.4 million from $3.6 million at December 31, 2023 to $2.2 million at June 30, 2024. The decrease in consumer loans is primarily a result of management’s decision to let the indirect lending portfolio amortize off the balance sheet.

A significant portion of the loan portfolio consists of commercial, construction and commercial real estate loans, primarily made in the Washington, D.C. metropolitan area and secured by real estate or other collateral in that market. Although these loans are made to a diversified pool of unrelated borrowers across numerous businesses, adverse developments in the Washington, D.C. metropolitan real estate market could have an adverse impact on this portfolio of loans and the Company's income and financial position. While our basic market area is the Washington, D.C. metropolitan area, the Bank has made loans outside that market area where the applicant is an existing customer, and the nature and quality of such loans was consistent with the Company's lending policies.

The federal banking Agencies issued guidance in 2006 which addresses institutions with increased concentrations of commercial real estate (CRE) loans. The guidance does not establish specific CRE lending limits; rather, it promotes sound risk management practices and appropriate levels of capital that will enable institutions to continue to pursue CRE lending in a safe and sound manner. In developing this guidance, the Agencies recognized that different types of CRE lending present different levels of risk, and that consideration should be given to the lower risk profiles and historically superior performance of certain types of CRE, such as well-structured multifamily housing finance, when compared to others, such as speculative office space construction. As discussed under "CRE Concentration Assessments," institutions are encouraged to segment their CRE portfolios to acknowledge these distinctions for risk management purposes. The guidance focuses on those CRE loans for which the cash flow from the real estate is the primary source of repayment rather than loans to a borrower for which real estate collateral is taken as a secondary source of repayment or through an abundance of caution. Thus, for the purposes of the guidance, CRE loans include those loans with risk profiles sensitive to the condition of the general CRE market (for example, market demand, changes in capitalization rates, vacancy rates, or rents). CRE loans are land development and construction loans (including 1- to 4-family residential and commercial construction loans) and other land loans. CRE loans also include loans secured by multifamily property, and nonfarm nonresidential property where the primary source of repayment is derived from rental income associated with the property (that is, loans for which 50 percent or more of the source of repayment comes from third party, nonaffiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Excluded from the scope of this Guidance are loans secured by nonfarm nonresidential properties where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or affiliate of the party, who owns the property.

As part of their ongoing supervisory monitoring processes, the Agencies use certain criteria to identify institutions that are potentially exposed to significant CRE concentration risk. An institution that has experienced rapid growth in CRE lending, has notable exposure to a specific type of CRE, or is approaching or exceeds the following supervisory criteria may be identified for further supervisory analysis of the level and nature of its CRE concentration risk:

1. Total reported loans for construction, land development, and other land represent 100 percent or more of the institution's total risk-based capital; or

2. Total commercial real estate loans as defined in this guidance represent 300 percent or more of the institution's total risk-based capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50 percent or more during the prior 36 months.

The Agencies use the criteria as a preliminary step to identify institutions that may have CRE concentration risk. Because regulatory reports capture a broad range of CRE loans with varying risk characteristics, the supervisory monitoring criteria do not constitute limits on an institution's lending activity but rather serve as high-level indicators to identify institutions potentially exposed to CRE concentration risk.

The Company holds a concentration in commercial real estate loans. As of June 30, 2024, construction, land development and other land loans represented 130.2% of consolidated risk-based capital. Total commercial real estate loans as defined by the Agency guidance represented 367.2% of consolidated risk-based capital. During the prior 36 months, the Company has experienced an increase in its commercial real estate portfolio by 57%.

The management team has extensive experience in underwriting commercial real estate loans and has implemented and continues to maintain heightened risk management procedures and strong underwriting criteria with respect to its commercial real estate portfolio. The Board of Directors has established internal maximum limits on CRE to better manage and control the exposure to property classes during periods of changing economic conditions. The Board of Directors also has minimum targets for regulatory capital ratios that are in excess of well capitalized ratios.

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

We stress test earning assets on a quarterly basis and measure the results against the Bank's risk-based capital. For commercial loans, residential real estate loans, owner-occupied commercial real estate loans and consumer installment loans, we multiply the total outstanding amount for each loan category by our highest quarter historical loss for that category as a surrogate in order to calculate a stressed loss.

For our non-owner occupied commercial real estate loans, we use three separate methodologies in our stress test. If a property fails more than one of the three tests, we extend the test with the highest exposure value and add an additional 10% for selling costs.

- An immediate and sustained 3.0% increase in interest rates,
- An immediate and sustained 5.0% increase in vacancy rates, and
- An immediate and sustained 2.0% change in the capitalization rate, or “cap rate.”

We stress test the construction lending portfolio by applying exponential discounting (using a "k factor" of 2) to each project based upon its percentage of completion. The project is stressed using the as-is and as-complete appraised values and assumes 10% selling costs.

For all other loans, we utilize the Bank's historic loss rates or if not available, the average loss rates of UBPR Group 4 banks, for bank owned life insurance we utilize default rates from S&P Global ratings, and for securities we obtain an independent fair market value and if it is less than the book value, we subtract the fair market value from the book value to determine the stress loss. The following table shows the Company's earning assets and the results of the stress test performed for the periods indicated.

	June 30, 2024		
	Outstanding Balance	**Stress Test Results (1)**	**Stressed Loss Percent**
		(Dollars in thousands)	
Earning Asset Component			
Construction and land development	$ 410,698	$ (5,297)	(1.29)%
Non-Owner Occupied CRE (2)	747,822	(8,649)	(1.16)%
All Other Loans (3)	642,699	(20,255)	(3.15)%
AFS Securities	68,050	(8,043)	(11.82)%
HTM Securities	16,036	(194)	(1.21)%
Swap Portfolio	—	—	—
Bank Owned Life Insurance	38,901	(38)	(0.10)%
Total	$ 1,924,206	$ (42,476)	(2.21)%

(1) Net tax effective loss at the statutory rate of 21%
(2) Non-Owner Occupied CRE includes call codes 1E2 and 1D
(3) The historical loss percentage for All Other Loans changed between December 31, 2023 and June 30, 2024

	December 31, 2023		
	Outstanding Balance	**Stress Test Results (1)**	**Stressed Loss Percent**
		(Dollars in thousands)	
Earning Asset Component			
Construction and land development	$ 429,637	$ (4,606)	(1.07)%
Non-Owner Occupied CRE (2)	732,815	(7,635)	(1.04)%
All Other Loans	564,639	(11,994)	(2.12)%
AFS Securities	69,665	(7,478)	(10.73)%
HTM Securities	17,275	(88)	(0.51)%
Swap Portfolio	—	—	—
Bank Owned Life Insurance	38,318	(39)	(0.10)%
Total	$ 1,852,349	$ (31,840)	(1.72)%

(1) Net tax effective loss at the statutory rate of 21%
(2) Non-Owner Occupied CRE includes call codes 1E2 and 1D

The total estimated stress test loss is deducted from capital and we recalculate the capital ratios. As shown in the tables below, as of June 30, 2024 and December 31, 2023, the post-stress capital ratios well exceed our Board target ratios as well as Agency minimums (with buffer). For Non-Owner-Occupied CRE & Multi-family the stress test is bifurcated with a low-end loss estimate and high-end estimate. The Low Estimate produces loss amounts for loans that are flagged for default (per the model) and floors the loss amount at zero. The High Estimate executes similar to the low estimate but floors the Loss-Given-Default rate at 10%, per Basel Committee on Banking Supervision rules. It also has a collective loss held on all loans regardless of if the loan is flagged for default.

June 30, 2024 Bank Capital Adequacy Ratios Pre- and Post-Stress (Tax-Effective)

	Well Capitalized with Buffer	Bank Minimum Target	As of June 30, 2024	Post Stress, Low Estimate	Post Stress, High Estimate
Community Bank Leverage Ratio	8.00%	8.50%	14.22%	12.75%	12.57%
Leverage Ratio	5.00%	8.00%	14.22%	12.75%	12.57%
Total Risk-Based Capital	10.00%	11.50%	16.78%	15.14%	14.95%
Tier 1 Risk-Based Capital	8.00%	9.50%	15.85%	14.22%	14.02%
Common Equity Tier 1 Risk-Based Capital	6.50%	8.00%	15.85%	13.79%	13.59%

December 31, 2023 Bank Capital Adequacy Ratios Pre- and Post-Stress (Tax-Effective)

	Well Capitalized with Buffer	Bank Minimum Target	As of December 31, 2023	Post Stress, Low Estimate	Post Stress, High Estimate
Community Bank Leverage Ratio	8.00%	8.50%	14.66%	13.74%	13.59%
Leverage Ratio	5.00%	8.00%	14.66%	13.74%	13.59%
Total Risk-Based Capital	10.00%	11.50%	17.18%	16.17%	16.00%
Tier 1 Risk-Based Capital	8.00%	9.50%	16.22%	15.20%	15.04%
Common Equity Tier 1 Risk-Based Capital	6.50%	8.00%	16.22%	14.79%	14.62%

The following two tables break down the June 30, 2024 and December 31, 2023 non-owner occupied CRE portfolio balances by showing the current balance in each sub-category and location. The tables also display very favorable weighted average interest rates and weighted average loan-to-values for both periods. The weighted average occupancy percentages are also broadly favorable for both periods.

June 30, 2024
(Dollars in thousands)

Non-Owner Occupied CRE (2)	Location					Weighted Average Rate	Weighted Average Loan-to-Value (1)	Weighted Average Occupancy %
	DC	MD	VA	Other	Total			
Multifamily	$ 214,447	$ 7,299	$ 17,481	$ —	$ 239,227	6.56%	68%	79%
Office:								
Mixed use	612	2,703	3,004	—	6,319	5.41%	64%	81%
Medical	—	22,311	15,029	466	37,806	5.61%	63%	69%
Office	1,314	1,892	3,573	—	6,779	6.40%	56%	90%
Office to Residential Conversion	11,900	—	32,136	—	44,036	11.19%	58%	N/A
Hospitality	29,007	61,108	88,142	—	178,257	6.58%	65%	N/A (3)
Retail/Commercial	58,612	42,850	95,626	11,870	208,958	6.08%	56%	75%
Industrial	—	14,902	5,613	5,925	26,440	7.09%	59%	90%
Total Non-Owner Occupied CRE	315,892	153,065	260,604	18,261	747,822	6.54%	62%	71%
Construction and Land Development								
Multifamily	112,217	—	11,994	20,386	144,597	8.29%	61%	N/A
1-4 family	69,740	—	58,474	—	128,214	9.35%	61%	N/A
Retail/Commercial	17,233	—	—	—	17,233	9.07%	69%	N/A
Hospitality	—	12,371	—	—	12,371	9.50%	63%	N/A
Industrial	35,136	—	1,086	—	36,222	7.00%	57%	N/A
Mixed use	9,900	—	—	—	9,900	8.97%	59%	N/A
Self-storage	—	—	—	13,986	13,986	8.18%	50%	N/A
Other	248	9,417	30,586	7,924	48,175	8.39%	47%	N/A
Total Construction and Land Development	244,474	21,788	102,140	42,296	410,698	8.68%	59%	N/A
Total Construction, Land Development, and Non-Owner Occupied CRE	$ 560,366	$ 174,853	$ 362,744	$ 60,557	$ 1,158,520			N/A

(1) Loan-to-value is based on maximum potential outstanding at time of origination
(2) Non-owner occupied includes multifamily call code 1E2 and 1D
(3) Hospitality relies upon individual STR data

December 31, 2023
(Dollars in thousands)

Non-Owner Occupied CRE (2)	DC	MD	Location VA	Other	Total	Weighted Average Rate	Weighted Average Loan-to-Value (1)	Weighted Average Occupancy %
Multifamily	$ 246,153	$ 7,357	$ 17,530	$ —	$ 271,040	6.27%	64%	81%
Office:								
Mixed use	9,445	2,729	4,395	—	16,569	6.65%	36%	87%
Medical	—	22,428	15,297	499	38,224	5.61%	43%	69%
Office	—	1,892	6,386	—	8,278	6.64%	43%	87%
Office to Residential Conversion	—	—	21,550	—	21,550	9.50%	48%	N/A
Hospitality	—	60,530	73,677	—	134,207	6.77%	60%	N/A (3)
Retail/Commercial	60,133	42,084	94,400	11,977	208,594	6.06%	44%	80%
Industrial	753	14,007	7,809	6,015	28,584	7.29%	63%	96%
Other	—	—	—	5,769	5,769	6.00%	60%	0%
Total Non-Owner Occupied CRE	316,484	151,027	241,044	24,260	732,815	6.46%	57%	71%
Construction and Land Development								
Multifamily	103,608	—	11,060	14,563	129,231	8.44%	62%	N/A
1-4 family	95,764	—	54,947	—	150,711	8.99%	63%	N/A
Office:	1,328	—	—	—	1,328	4.85%	79%	N/A
Retail/Commercial	17,798	—	—	—	17,798	9.13%	72%	N/A
Raw land	—	3,690	15,457	8,000	27,147	8.00%	36%	N/A
Hospitality	—	7,070	—	—	7,070	9.50%	63%	N/A
Industrial	25,110	—	1,477	7,458	34,045	7.27%	51%	N/A
Mixed use	9,511	—	15,730	—	25,241	9.17%	68%	N/A
Other	1,757	23,081	12,228	—	37,066	9.00%	54%	N/A
Total Construction and Land Development	254,876	33,841	110,899	30,021	429,637	8.66%	60%	N/A
Total Construction, Land Development, and Non-Owner Occupied CRE	$ 571,360	$ 184,868	$ 351,943	$ 54,281	$ 1,162,452	7.39%	60%	N/A

(1) Loan-to-value is based on maximum potential outstanding at time of origination
(2) Non-owner occupied includes multifamily call code 1E2 and 1D
(3) Hospitality relies upon individual STR data

The Company also underwrites and originates owner-occupied commercial real estate loans. These loans are typically term loans made to support properties that rely upon the operations of the business occupying the property for repayment. The Agencies specifically excluded owner-occupied commercial real estate from their concentration guidance, as the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or affiliate of the party, who owns the property.

The following two tables depict a well-diversified portfolio of owner-occupied commercial real estate as of June 30, 2024 and December 31, 2023. The properties are distributed nicely among the Company's footprint. This loan segment continues to perform very well and is supported by strong loan-to-values (LTVs). The following table sets forth our owner-occupied CRE portfolio by the business industry groups that occupy the properties for the periods indicated.

June 30, 2024
(Dollars in thousands)

Owner Occupied CRE	DC	MD	Location VA	Other	Total	Weighted Average Rate	Weighted Average Loan-to-Value (1)
Accommodation and food services	$ 18,884	$ 2,966	$ 10,913	$ 11,109	$ 43,872	5.88%	69%
Administrative and support	—	4,500	4,483	—	8,983	5.49%	56%
Arts and recreation	—	—	36,977	—	36,977	6.91%	63%
Construction services	13,833	4,031	15,994	—	33,858	5.97%	69%
Education services	28,518	—	5,724	—	34,242	5.98%	59%
Health care	4,754	18,234	16,200	137	39,325	7.05%	66%
Information	—	—	4,391	—	4,391	4.39%	50%
Manufacturing	—	—	6,058	—	6,058	4.22%	56%
Religious and other	6,088	16,157	47,333	938	70,516	6.21%	62%
Professional, scientific, tech services	2,879	—	5,707	—	8,586	5.41%	73%
Real estate and rental leasing	746	2,219	3,745	—	6,710	6.31%	68%
Retail trade	881	9,287	24,623	—	34,791	6.26%	68%
Wholesale trade	—	172	867	7,087	8,126	5.98%	73%
Total Owner Occupied CRE	$ 76,583	$ 57,566	$ 183,015	$ 19,271	$ 336,435	6.19%	65%

(1) Loan-to-value is based on maximum potential outstanding at time of origination

December 31, 2023
(Dollars in thousands)

Owner Occupied CRE	DC	MD	Location VA	Other	Total	Weighted Average Rate	Weighted Average Loan-to-Value (1)
Accommodation and food services	$ 17,925	$ 2,995	$ 12,186	$ 5,605	$ 38,711	5.68%	69%
Administrative and support	—	4,500	4,557	—	9,057	5.49%	56%
Arts and recreation	—	—	37,127	—	37,127	6.14%	62%
Construction services	5,173	4,035	16,278	—	25,486	5.23%	73%
Education services	29,169	—	5,581	—	34,750	5.86%	61%
Health care	4,810	993	16,836	139	22,778	5.43%	76%
Manufacturing	—	—	6,218	—	6,218	4.33%	55%
Religious and other	6,141	8,047	32,305	946	47,439	5.78%	66%
Professional, scientific, tech services	2,908	—	10,474	—	13,382	5.06%	75%
Real estate and rental leasing	—	2,281	1,168	—	3,449	6.55%	62%
Retail trade	894	6,692	25,249	2,670	35,505	5.83%	69%
Wholesale trade	—	184	837	7,129	8,150	5.98%	73%
Total Owner Occupied CRE	$ 67,020	$ 29,727	$ 168,816	$ 16,489	$ 282,052	5.72%	67%

(1) Loan-to-value is based on maximum potential outstanding at time of origination

Allowance for Credit Losses - Loans

The allowance for credit losses on loans represents an amount that, in our judgment, will be adequate to absorb current and expected losses in the loan portfolio. The provision for credit losses on loans increases the allowance, and loans charged off, net of recoveries, reduce the allowance. The table below summarizes the allowance activity for the periods indicated:

	For the Six Months Ended June 30, 2024	For the Year Ended December 31, 2023
	(Dollars in thousands)	
Balance at beginning of year	$ 16,506	$ 14,114
Impact of adopting ASC 326	—	895
Charge-offs:		
Construction and land development	(370)	—
Residential real estate	(132)	—
Commercial and industrial	—	(462)
Consumer	(9)	(6)
Total charge-offs	(511)	(468)
Recoveries:		
Residential real estate	—	7
Consumer	8	15
Total recoveries	8	22
Net charge-offs	(503)	(446)
Provision for credit losses - loans	1,095	1,943
Balance at end of period	$ 17,098	$ 16,506
Ratios:		
Net charge-offs recoveries to average loans outstanding	0.03%	0.03%
Allowance for credit losses on loans to non-performing loans	82.63%	16.44X
Allowance for credit losses on loans to gross loans at end of period	0.95%	0.96%

Nonperforming Assets

The following table presents information regarding nonperforming assets at the dates indicated:

	June 30, 2024	December 31, 2023
	(Dollars in thousands)	
Non-accrual loans:		
Residential real estate:		
Single family	1,779	149
Construction and land development	17,783	—
Commercial and industrial	1,129	851
Total non-accrual loans	20,691	1,000
Loans 90 days past due and still accruing	—	4
Total non-performing loans	20,691	1,004
Other real estate owned	—	—
Total non-performing assets	$ 20,691	$ 1,004
Ratios:		
Total non-performing loans to gross loans receivable	1.15%	0.06%
Total non-performing loans to total assets	0.99%	0.05%
Total non-performing assets to total assets	0.99%	0.05%

Deposits

Deposits increased $69.2 million, or 4.1% to $1.76 billion at June 30, 2024 from $1.69 billion at December 31, 2023. Our core deposits increased $124.5 million, or 9.9%, to $1.38 billion at June 30, 2024 from $1.25 billion at December 31, 2023. Non-interest bearing demand deposits decreased $50.0 million, or 13.7%, to $314.6 million at June 30, 2024 from $364.6 million at December 31, 2023. Interest bearing demand deposits increased $42.4 million, or 30.9%, to $179.5 million at June 30, 2024 from $137.1 million at December 31, 2023. Time deposits increased $27.6 million, or 4.0%, to $724.0 million at June 30, 2024 from $696.3 million at December 31, 2023. Money market demand deposits increased $34.2 million, or 7.7%, to $476.4 million at June 30, 2024 from $442.2 million at December 31, 2023. The increase in money market deposit accounts and time deposits were primarily the result of the higher rate environment, deposit competition, and customers looking for additional interest-bearing options.

The following table presents the Company’s deposits segregated by major category as of June 30, 2024 and December 31, 2023:

	June 30, 2024		December 31, 2023	
(Dollars in thousands)				
Deposit type:	**Balance**	**Percent %**	**Balance**	**Percent %**
Interest bearing demand deposits	$ 179,513	10.2%	$ 137,128	8.2%
Savings and NOWdeposits	60,867	3.5%	45,878	2.7%
Money market demand deposits	476,396	27.1%	442,179	26.2%
Time deposits	723,951	42.3%	696,336	41.3%
Interest bearing deposits	1,440,727	83.1%	1,321,521	78.4%
Non-interest bearing demand deposits	314,636	17.9%	364,606	21.6%
Total deposits	$ 1,755,363	100.0%	$ 1,686,127	100.1%

The Company uses wholesale deposits as a funding source in addition to customer deposits. Wholesale deposits provide a diversified and stable source of funding during times of market volatility. As of June 30, 2024, the Company had $348.6 million of total wholesale deposit balances, a decrease of $84.4 million compared to December 31, 2023, which totaled $433.0 million.

Given the interest rate environment and strategic initiatives, the Company replaced maturing lower yielding wholesale CDs with higher market rate CDs. The replacement CDs include call options at our discretion if economic conditions changed. The Company also utilized additional wholesale demand deposits to provide liquidity and more effectively balance our interest rate sensitivity. During the six months ended June 30, 2024, total wholesale deposit funding accounted for approximately 31% of our interest expense.

The following table presents the Company's total wholesale deposit composition, concentrations, current rate and remaining duration, if applicable as of June 30, 2024.

(Dollars in thousands)	June 30, 2024				December 31, 2023			
Wholesale Money Market Deposits Accounts (MMDA)		**Percent %**	**Weighted Average Rate**	**Weighted Remaining Maturity (in months)**		**Percent %**	**Weighted Average Rate**	**Weighted Remaining Maturity (in months)**
Wholesale MMDAs	$ 62,920	18.0%	5.55%	N/A	$ 120,536	27.8%	5.75%	N/A
Wholesale Time Deposits								
Listing Service CDs (1)	21,107	6.1%	4.31%	13	34,481	8.0%	4.86%	5
Wholesale CDs:								
Term	121,731	34.9%	4.71%	12	148,906	34.4%	4.32%	7
Term with Call Option (2)	142,838	41.0%	5.17%	39	129,083	29.8%	5.22%	30
Total Wholesale CDs	264,569				277,989			
Total Wholesale Deposits	$ 348,596	100.0%			$ 433,006	100.0%		

(1) Listing service CDs are excluded from being classified as wholesale deposits, per FDIC call report instructions
(2) Average weighted call date is May 2024

Regulatory Defined Wholesale Deposits

Each quarter the Bank files a bank call report with the FDIC, which has a specific way it defines wholesale brokered deposits. As of June 30, 2024, the Company had $327.5 million of wholesale deposits outstanding, as defined by FDIC, a decrease of $71.0 million from December 31, 2023. In addition, pursuant to rule 12 CFR 337.6(e), well-capitalized and well-rated institutions are not required to treat reciprocal deposits as wholesale deposits up to the lesser of 20 percent of their total liabilities or $5 billion. Reciprocal core deposits exceeding this threshold must be reported additionally as wholesale deposits for call report purposes only. As of June 30, 2024, the Company additionally reported $290.5 million in reciprocal deposits considered wholesale for call report purposes only, bringing regulatory defined wholesale deposits to $639.1 million as of June 30, 2024. As of June 30, 2024, all of the Company's reciprocal deposits were core deposits from customers who placed their deposits in the reciprocal network for additional FDIC insurance coverage.

Liquidity and Capital Resources

Liquidity Management. Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Deposits are the primary source of funds for lending and investing activities. The Company uses wholesale deposits in addition to customer deposits, as funding sources. Scheduled payments, as well as prepayments, and maturities from portfolios of loans and investment securities also provide a stable source of funds. FHLB secured advances, other secured borrowings, federal funds purchased, and other short-term unsecured borrowed funds, as well as longer-term debt issued through the capital markets, all provide supplemental liquidity sources. Additional liquidity can be obtained through the Federal Reserve Bank discount window. The Company's funding activities are monitored and governed through the Company's asset/liability management process. MainStreet Bank had no federal funds purchased outstanding and an additional secured borrowing capacity of $516.6 million as of June 30, 2024. Additionally, at June 30, 2024, we had the ability to borrow up to $129.0 million from other financial institutions.

The Board of Directors, management, and the Asset Liability Committee (ALCO) are responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of June 30, 2024.

We monitor and adjust our investments in liquid assets based upon our assessment of expected loan demand; expected deposit flows; yields available on interest-earning deposits and securities; and the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short-and intermediate-term securities.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents, which include federal funds sold and interest-earning deposits in other banks. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2024, cash and cash equivalents totaled $91.5 million. The Company has availability on secured and unsecured lines for an additional $645.6 million. Finally, securities classified as available-for-sale, which provide additional sources of liquidity, totaled $57.6 million at June 30, 2024.

Our cash flows are provided by and used in three primary activities: operating activities, investing activities, and financing activities. Net cash provided by operating activities was $4.8 million and $16.7 million for the six months ended June 30, 2024 and June 30, 2023, respectively. There were no sales of securities in the six months ended June 30, 2024 or for six months ended June 30, 2023. Net cash used in investing activities, which consist primarily of disbursements for loan originations and the purchase of securities, offset by principal collections on loans and proceeds from maturing securities, was $78.8 million and $57.1 million for the six months ended June 30, 2024 and June 30, 2023, respectively. Net cash provided by financing activities was $50.9 million and $7.9 for the six months ended June 30, 2024 and 2023, respectively, which consisted primarily of increases in interest bearing deposits of $119.2 million for the six months ended June 30, 2024, partially offset by repayments of federal funds purchased of $15.0 million and decreased non-interest bearing deposits of $50 million.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position daily. We anticipate that we have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year of June 30, 2024, totaled $476.8 million of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits, Federal Home Loan Bank advances and commitments from other financial institutions. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. We believe, however, based on experience that a significant portion of such deposits will remain with us. We can attract and retain deposits by adjusting the interest rates offered.

Effects of Inflation. In an effort to combat inflation, the Federal Reserve, through the FOMC, increased rates a total of 5.25% during 2022 and through September 30, 2023, which has had a negative effect on the price of existing securities. As a result of rising interest rates, the Company recorded an accumulated other comprehensive loss on securities available for sale of approximately $8.0 million as of June 30, 2024, compared to recording accumulated other comprehensive loss in the amount of $7.5 million as of December 31, 2023. This unrealized loss is counter to total equity growth during 2023 and 2024 that had otherwise had continued capital addition through net earnings. Management does not anticipate the unrealized losses to result in write-down through earnings as they do not reflect credit deterioration within the portfolio.

Capital Management. MainStreet Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2024, MainStreet Bank exceeded all regulatory capital requirements and was considered "well capitalized" under regulatory guidelines.

Regulatory Capital

Information presented for June 30, 2024 and December 31, 2023, reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk- weightings and other factors.

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer for 2024 and 2023 is 2.50%. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total capital, Common Equity Tier 1 capital, and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of June 30, 2024, the Bank meet all capital adequacy requirements to which it is subject.

The Bank's actual capital amounts and ratios are presented in the table (dollars in thousands):

	Actual		Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provision	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2024						
Total capital (to risk-weighted assets)	$ 315,470	16.78%	$ 150,369	≥ 8.0%	$ 187,962	> 10.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 298,015	15.85%	$ 84,583	≥ 4.5%	$ 122,175	> 6.5%
Tier 1 capital (to risk-weighted assets)	$ 298,015	15.85%	$ 112,777	≥ 6.0%	$ 150,369	> 8.0%
Tier 1 capital (to average assets)	$ 298,015	14.22%	$ 83,853	≥ 4.0%	$ 104,816	> 5.0%
As of December 31, 2023						
Total capital (to risk-weighted assets)	$ 312,069	17.18%	$ 145,300	≥ 8.0%	$ 181,625	≥ 10.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 294,553	16.22%	$ 81,731	≥ 4.5%	$ 118,056	≥ 6.5%
Tier 1 capital (to risk-weighted assets)	$ 294,553	16.22%	$ 108,975	≥ 6.0%	$ 145,300	≥ 8.0%
Tier 1 capital (to average assets)	$ 294,553	14.66%	$ 80,375	≥ 4.0%	$ 100,469	≥ 5.0%

Off-Balance Sheet Arrangements and Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At June 30, 2024, we had outstanding loan commitments of $262.8 million and $311,000 in outstanding stand-by letters of credit. We anticipate that we will have sufficient funds available to meet our current lending commitments.

Use of Certain Non-GAAP Financial Measures

The accounting and reporting policies of the Company conform to U.S. GAAP and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of the Company's performance. These measures include adjusted net interest income and net interest margin.

Management believes that the use of these non-GAAP measures provides meaningful information about operating performance by enhancing comparability with other financial periods and other financial institutions. The non-GAAP measures used by management enhance comparability by excluding the effects of items that do not reflect ongoing operating performance, including non-recurring gains or charges. These non-GAAP financial measures should not be considered an alternative to U.S. GAAP-basis financial statements, and other bank holding companies may define or calculate these or similar measures differently. A reconciliation of the non-GAAP financial measures used by the Company to evaluate and measure the Company's performance to the most directly comparable U.S. GAAP financial measures is presented below.

	For the three months ended June 30,		For the six months ended June 30,	
(Dollars in thousands, except for per share data)	**2024**	**2023**	**2024**	**2023**
Net interest margin, fully-taxable equivalent (FTE)				
Net interest income (GAAP)	$ 15,289	$ 19,271	$ 30,661	$ 40,363
FTE adjustment on tax-exempt securities	71	70	143	141
Net interest income (FTE) (non-GAAP)	$ 15,360	$ 19,341	$ 30,804	$ 40,504
Average interest earning assets	1,958,869	1,829,054	1,936,568	1,821,636
Net interest margin (GAAP)	3.13%	4.23%	3.19%	4.47%
Net interest margin (FTE) (non-GAAP)	3.15%	4.24%	3.21%	4.48%

Item 3 – **Quantitative and Qualitative Disclosures about Market Risk**

Market Risk Management

The effective management of market risk is essential to achieving the Company's strategic financial objectives. As a financial institution, the Company's most significant market risk exposure is interest rate risk in its balance sheet; however, market risk also includes product liquidity risk, price risk and volatility risk in the Company's lines of business. The primary objectives of market risk management are to minimize any adverse effect that changes in market risk factors may have on net interest income, and to offset the risk of price changes for certain assets recorded at fair value.

Interest Rate Market Risk

The Company's net interest income and the fair value of its financial instruments are influenced by changes in the level of interest rates. The Company manages its exposure to fluctuations in interest rates through policies established by its Asset/Liability Committee. The Asset/Liability Committee meets regularly and has responsibility for approving asset/liability management policies, formulating strategies to improve balance sheet positioning and/or earnings and reviewing the interest rate sensitivity of the Company.

We estimate what our net interest income would be for a 12-month period. We then calculate what the net interest income would be for the same period under different interest rate assumptions. These estimates require certain assumptions to be made, including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturity and decay rates. These assumptions are inherently uncertain. As a result, no simulation model can precisely predict the impact of changes in interest rates on our net interest income.

The table below reflects the results of our Earnings-at-Risk (EaR) stress simulation. The EaR stress simulation is a financial risk management tool that we use to assess our raw exposure to an immediate and sustained change in interest rates up and down 400 basis points. The results focus specifically on the potential impact of each scenario to our net interest income, and help us understand how various risks, such as market fluctuations, economic downturns, or specific events, could affect our ability to generate profits.

Our simulation model uses actual data as of June 30, 2024, and dynamically incorporates Board-approved budget assumptions in order to forecast the impact of stress factors. It is important to note that no other changes are made. The purpose of this simulation is so that management and the Board can make informed decisions that enhance our resilience and long-term viability. In other words, we examine the results of the stress test first to ensure that they are within Board-approved risk tolerance limits and second to determine whether we should make changes to the structure of our earning assets and interest-bearing liabilities.

Finally, as we consider simulation model outputs, we also consider their impact to other risk factors and ultimately to determine whether our capital provides a sufficient cushion to our risk profile.

Net Interest Income Stress Simulation
June 30, 2024

Basis Point Change in Interest Rates (1)	Net Interest Income Year 1 Forecast (2)	Year 1 Change From Level
	(Dollars in thousands)	
+400	$82,602	10.31%
+300	$81,437	8.76%
+200	$79,562	6.25%
+100	$77,870	3.99%
Level	$74,879	—
-100	$72,763	(2.83)%
-200	$71,899	(3.98)%
-300	$73,858	(1.36)%
-400	$76,007	1.51%

(1) Interest rate changes are immediate and sustained for the entire 12-month period
(2) Simulation model assumptions are locked for the entire 12-month period.

Item 4 – **Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2024. Based on their evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and regulations are designed and operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) occurred during the second fiscal quarter of 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There has been no significant effect or impact on internal controls over financial reporting as the Company implemented the current expected credit loss accounting standard.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

At June 30, 2024, the Company was not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business which involve amounts in the aggregate believed by management to be immaterial to the financial condition and operating results of the Company. In addition, no material proceedings are pending or known to be threatened or contemplated against the Company or its subsidiary by governmental authorities.

Item 1A – Risk Factors

Not required for smaller reporting companies. Reference is made to "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 20, 2024. For a discussion of certain risk factors affecting the Company, see our disclosure under "Forward-Looking Statements" in Part I, Item 2 in this Form 10-Q.

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

The following table summarized the common shares repurchased during the six months ended June 30, 2024.

(Dollars in thousands, except for per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
April 1, 2024 - April 30, 2024	—	$ —	—	$ 4,089
May 1, 2024 - May 31, 2024	14,311	$ 16.73	14,311	$ 3,850
June 1, 2024 - June 30, 2024	4,408	$ 16.38	4,408	$ 3,538
Total	18,719	$ 16.64	18,719	$ 3,538

Item 6 – Exhibits

31.1	Rule 13a-14(a) Certification of the Chief Executive Officer *
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer *
32.0	Section 1350 Certification *
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 formatted in Inline XBRL, filed herewith: (i) the Consolidated Balance Sheets (unaudited), (ii) the Consolidated Statements of Income (unaudited), (iii) the Consolidated Statements of Comprehensive Income (unaudited), (iv) the Consolidated Statements of Stockholders' Equity (unaudited), (v) the Consolidated Statements of Cash Flows (unaudited) and (vi) the Notes to Consolidated Financial Statements (unaudited)
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, formatted in Inline XBRL (included with Exhibit 101)

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		MAINSTREET BANCHSHARES, INC *(Registrant)*
Date: August 13, 2024	By:	/s/ Jeff W. Dick Jeff W. Dick Chairman & Chief Executive Officer *(Principal Executive Officer)*
Date: August 13, 2024	By:	/s/ Thomas J. Chmelik Thomas J. Chmelik Senior Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*

Exhibit 31.1

Certification

I, Jeff W. Dick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MainStreet Bancshares, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2024

/s/ Jeff W. Dick
Jeff W. Dick
Chairman and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

Certification

I, Thomas J. Chmelik, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MainStreet Bancshares, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e))) 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) 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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2024

/s/ Thomas J. Chmelik
Thomas J. Chmelik
Senior Executive Vice President and
Chief Financial Officer
(principal financial officer)

Exhibit 32.0

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

In connection with the Quarterly Report on Form 10-Q of MainStreet Bancshares, Inc. (the “Company”) for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission (the “Report”), I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

By: /s/ Jeff W. Dick
Jeff W. Dick
Chairman and Chief Executive Officer
(principal executive officer)
August 13, 2024

By: /s/ Thomas J. Chmelik
Thomas J. Chmelik
Senior Executive Vice President and
Chief Financial Officer
(principal financial officer)
August 13, 2024